SPECIMEN OF THE CURRENCY OF RESERVE [See p. 152]—the rate of interest taken arbitrarily, for the purpose of illustration.

Note.—Tenders for these Bills (to be made upon the rate of interest) to be expressed in even shillings, as 79s., 80s., 81s., &c.

No. (By virtue of an Act, Vic. Reg., cap. .) Dated at the Exchequer, January 1, 1857.

On or after January 1, 1858, *this Bill will entitle A B, or Order, to* ONE HUNDRED POUNDS, *together with Four Pounds One Shilling for One Year's Interest thereon; payable out of any Supplies, Revenues, Aids, or Taxes, granted by Parliament after the passing of the said Act.*

N.B. This Bill is a legal tender for One Hundred Pounds, together with a due portion of the Interest above-named, according to the age of the Bill when tendered.

TABLE OF INTEREST.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
1857	January ..	......	3*d.*	5*d.*	8*d.*	11*d.*	1/1	1/4	1/7	1/9	2/0	2/3	2/5	2/8	2/11	3/1	3/4	3/7	3/9	4/0	4/3	4/5	4/8	4/11	5/1	5/4	5/6	5/9	6/0	6/2	6/5	6/8	January
	February ..	6/10	7/1	7/4	7/6	7/9	8/0	8/2	8/5	8/8	8/10	9/1	9/4	9/6	9/9	10/0	10/2	10/5	10/8	10/10	11/1	11/4	11/6	11/9	12/0	12/2	12/5	12/8	12/10	......	......	......	February
	March	13/1	13/4	13/6	13/9	14/0	14/2	14/5	14/8	14/10	15/1	15/4	15/6	15/9	16/0	16/2	16/5	16/7	16/10	17/1	17/3	17/6	17/9	17/11	18/2	18/5	18/7	18/10	19/1	19/3	19/6	19/9	March
	April	19/11	20/2	20/5	20/7	20/10	21/1	21/3	21/6	21/9	21/11	22/2	22/5	22/7	22/10	23/1	23/3	23/6	23/9	23/11	24/2	24/5	24/7	24/10	25/1	25/3	25/6	25/9	25/11	26/2	26/5	......	April
	May......	26/7	26/10	27/1	27/3	27/6	27/8	27/11	28/2	28/4	28/7	28/10	29/0	29/3	29/6	29/8	29/11	30/2	30/5	30/7	30/10	31/0	31/3	31/6	31/8	31/11	32/2	32/4	32/7	32/10	33/0	33/3	May
	June	33/6	33/8	33/11	34/2	34/4	34/7	34/10	35/0	35/3	35/6	35/8	35/11	36/2	36/4	36/7	36/10	37/0	37/3	37/6	37/8	37/11	38/2	38/4	38/7	38/9	39/0	39/3	39/5	39/8	39/11	......	June
	July......	40/2	40/4	40/7	40/9	41/0	41/3	41/5	41/8	41/11	42/2	42/5	42/8	42/10	43/1	43/4	43/6	43/9	44/0	44/2	44/5	44/8	44/10	45/1	45/4	45/6	45/9	46/0	46/2	46/5	46/8	46/10	July
	August....	47/1	47/4	47/6	47/9	48/0	48/2	48/5	48/8	48/10	49/1	49/4	49/6	49/9	49/11	50/2	50/5	50/7	50/10	51/1	51/3	51/6	51/9	51/11	52/2	52/5	52/7	52/10	53/1	53/3	53/6	53/9	August
	September .	53/11	54/2	54/5	54/7	54/10	55/1	55/3	55/6	55/9	55/11	56/2	56/5	56/7	56/10	57/1	57/3	57/6	57/9	57/11	58/2	58/5	58/7	58/10	59/1	59/3	59/6	59/9	59/11	60/2	60/5	......	September
	October ..	60/7	60/10	61/1	61/3	61/6	61/8	61/11	62/2	62/4	62/7	62/10	63/0	63/3	63/6	63/8	63/11	64/2	64/4	64/7	64/10	65/0	65/3	65/6	65/8	65/11	66/2	66/4	66/7	66/10	67/0	67/3	October
	November..	67/6	67/8	67/11	68/2	68/4	68/7	68/10	69/0	69/3	69/6	69/8	69/11	70/2	70/4	70/7	70/10	71/0	71/3	71/6	71/8	71/11	72/2	72/4	72/7	72/9	73/0	73/3	73/5	73/8	73/11	......	November
	December..	74/1	74/4	74/7	74/9	75/0	75/3	75/5	75/8	75/10	76/1	76/4	76/7	76/9	77/0	77/3	77/5	77/8	77/11	78/1	78/4	78/7	78/9	79/0	79/3	79/5	79/8	79/10	80/1	80/4	80/7	80/9	December
1858	January ..	81/0																															January

PRINCIPLES OF CURRENCY.

MEANS OF ENSURING

UNIFORMITY OF VALUE

AND

ADEQUACY OF SUPPLY.

BY

EDWIN HILL.

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CONTENTS.

CHAPTER I.

INTRODUCTORY.

AFTER the lapse of years the subject of currency is again pressed upon public attention by the unusual and somewhat alarming state of the money market. Formerly, men who had given long and laborious attention to this subject were nevertheless deterred from stating their views publicly, because the public mind appeared to have been set fast in this matter; so much so indeed, that any attempt to subject the principles, upon which our currency laws are based, to that calm and patient but searching investigation and discussion, which has been so eminently successful in the discovery of correct principles, in respect of other matters of practical importance, was as vain as it would have been to scatter seeds upon hard frozen ground. Let us hope that such is not now the case, but on the contrary, that an earnest attempt to aid in throwing light upon this obscure, but important subject,

will now obtain not only a candid reception, but also a temperate examination, conducted under a deep consciousness that although in opinion we may differ, yet, in interest we are united; for that in respect of this subject, the discovery and application of correct principles most deeply concerns the welfare of all.

There are some who object *in limine* to *all* "regulation of the currency;" as it is termed, but such objection is founded in error; because currency being legal tender, it, as that name imports, is the creature of law or "regulation;" wherefore to withdraw "regulation" altogether, would be to cease to have legal tender; an impracticable alternative. Therefore, what we require, is not the absence of regulation, but the presence of the most effectual kind thereof.

But regulation is of two kinds, viz., discretionary, and self-acting. Thus, on the one hand, the Bank of England both possesses and exercises the power of regulating the currency at its discretion, by altering its rate of discount. Also the Executive has ere now exercised a discretionary power over the currency,

by suspending for a time the operation of the currency laws. Whilst, on the other hand, self-acting regulation is afforded by the exportation of gold at one time in relief of excess, and its importation at another, in relief of insufficiency, such operations being undertaken *upon ordinary mercantile principles;* the trader simply seeking his own profit, and not concerning himself in the least about the regulation of anything whatever.

Amongst us, happily, self-acting regulation in commercial matters is the rule; discretionary interference, the exception. And I hope the considerations herein advanced will show that our currency has really within itself means of regulation of the self-acting kind, which admit of being so improved as to render every kind of discretionary interference quite needless for the future; and at the same time to confer upon the country a blessing which so far as I can collect, no country is known ever to have enjoyed; viz., the possession of a currency endowed with the power of correctly adapting itself to the wants of the population, at all times and under all circumstances; a

currency, therefore, which could never either by becoming excessive, excite men to speculative madness, or by falling into insufficiency, bring upon them the disasters of panic.

Before we can usefully consider whether our monetary laws and arrangements are or are not what they ought to be, however, we should come to a definite understanding of the exact nature of the service or assistance which we do or ought to derive from the use of money; in other words, we should at the outset clearly ascertain what is the precise kind, and what the possible extent, of the advantage, which, under the most favourable circumstances, the use of money can render us; and in this manner, to discover and establish the true use or proper function of money, is the more necessary just now, because we find that men of unquestionable ability are actually calling for a change in our currency laws *upon the ground that we have passed from a state of peace to one of war;* necessarily implying, therefore, that the transition from peace to war has either produced some change in the function of money, or that it has in some way affected

the power of the substances or matters which are employed as money, to continue to discharge those functions.

The transition from peace to war ought doubtless to stimulate our endeavours to improve and strengthen those of our arrangements which deeply concern our ability to support the burdens of war; and the more imperfect any particular set of arrangements shall be found, the more strenuously ought we to exert ourselves in procuring its amendment. That the success of our multifarious industrial pursuits is, in no inconsiderable degree, dependent upon the efficiency of our currency, I presume no one would question; but it is difficult to imagine why the self-same arrangements should in time of peace be deemed correct, and in time of war be deemed incorrect.

That our currency laws are susceptible of great improvement, particularly as respects the preservation of fixedness of value in the standard, and that the more heavy our burdens become, the more urgent such improvement becomes, I most sincerely believe, but I am unable to perceive that although we are held

to have been correct in selling twelve to the dozen, sixteen ounces to the pound, &c. in time of peace, we should be held to be wrong in doing so in time of war; and be strongly advised to begin forthwith to sell eleven, thirteen, or some other number to the dozen, and fifteen, seventeen, or some other number of ounces to the pound, &c.; for it is to this, that certain plans recently brought forward, are in truth equivalent.

It is necessary, also, that before proposing any change as respects any of the matters or substances used as currency, we should carefully examine the several qualifications thereof for the uses they are put to (disregarding the more obvious ones, however, to avoid prolixity) and duly take into account the respective quantities in which such matters or substances are procurable; the object of such examination being to ascertain whether these matters or substances are defective in any way, and if so, in what way.—

Again, as to the legitimate demand for currency, and the supply thereof,—whether that demand is uniform or variable; and if variable,

from what causes; and whether the supply is of such a nature as to adapt itself without difficulty to the demand; or whether, on the contrary, it be not subject to certain influences which do occasionally prevent such conformity, and in its stead produce important disparity.—

Further, if it be thus found that the requisite conformity between the demand for currency and the supply thereof is liable to important interruption; then, as to the effects of such interruption; and as to the means there may be for so amending our arrangements that all such interruption may cease.

All these are matters for careful consideration, preparatory to any attempt being made to introduce changes of any kind; for there are few matters affecting the commercial interests of the country, which it is more necessary thoroughly to master before undertaking their reform, than the currency; since there are few in respect of which rash or ill-judged alterations could be more dangerous.

These subjects are all discussed in the following pages; and if the conclusions herein

arrived at are different from those hitherto generally received, they are at least of a more consolatory nature; because, if correct, they show that whilst on the one hand we are nowise irrevocably bound down to the present imperfect and unsatisfactory arrangements, as many able men do regretfully hold; so, on the other hand, we are nowise compelled, in making our escape therefrom, to plunge into vagueness, uncertainty, and extravagance, casting aside both rule and method, rudder and compass, as some advise, in effect if not in name.

I might probably find in the works of our leading writers upon the currency, authority for almost every *individual* conclusion which I have arrived at; although I cannot so fortify the general inference which I have drawn from them when taken collectively.

For one conclusion, however, I am unable to adduce any direct authority, although I am unquestionably supported in it, indirectly, by an authority no less eminent than that of the late David Ricardo; and as much depends upon the soundness of this conclusion, I must

bespeak the reader's calm and patient attention to the reasoning from which it is deduced.

This conclusion is the somewhat bold one, that there is a great and fundamental defect, from which no known currency—be it wholly or only partly metallic—is free; a defect that in respect of any currency whatever, must either be cured, or its consequences be neutralized by the application of some competent antidote, before such currency can work thoroughly well;—work, that is, without undergoing those alternations of repletion and insufficiency which are the bane of commercial affairs. Such radical error consists in the employment of one and the same substance for the discharge of two distinct functions, which functions are from their nature demonstrably incompatible; the one being that of the standard measure of monetary contracts and of values in exchange, and the other being that of the medium of payment.

That these two functions are wholly incompatible, will, I think, appear from the considerations advanced in the following pages: that they are perfectly distinct and separable,

can be shown by referring to their actual existence in a state of legal separation in our own country. I may be allowed for this purpose to insert an extract from a former work:—

"As with us in England, one precedent carries more weight than twenty arguments, in order to prove that the two functions of a standard of value and a medium of payment are distinct, independent, and *separable*, I will refer to the college rents and the tithe commutations: in connection with which, these functions are *actually separated by law*, for in both of these cases, *corn* and not money, is the appointed standard *measure of value*, whilst *money* and not corn, is the appointed *medium of payment*. For instance, a college farm may be let for a thousand bushels of corn per annum; in which case, the *bushel of corn* is the undoubted standard unit, by comparison with which the annual value of the farm is determined; but the tenant at the year's end is not entitled to hand to the college a thousand bushels of corn, but must pay an equivalent value in money: *money*, therefore, is the undoubted medium of payment."

"Here, then, we have the two functions in a state of complete separation; of *legal separation*, be it observed; and corn, which in this case, constitutes the standard measure of the contract, and therefore discharges the first-named function, is *positively excluded* from discharging the last-named function, viz., that of the medium of payment; being, therefore, *not* the medium of payment, its value cannot be affected by any change whatever that may take place in the demand for the medium of payment."

"At the time when the rents become payable, all that is necessary to be done, so far as corn is concerned, is to ascertain its market price; and he who proceeds to make the enquiry, being (so far as this purpose is concerned) neither a buyer nor seller, his proceedings can nowise affect either the demand or the supply; he will simply go to the market house to learn the price of corn, just as he might go to the town clock to learn the time of day; nor will his enquiry any more affect that price (which is the standard for the purpose in question), than would his looking at the town clock, affect the time of day, as indicated upon its dial."

To this it may be added, that as respects the tithe commutations, corn (not money) is just as truly the standard measure, as it is in respect of the college rents; although its application may be less direct:—whilst money, and not corn, is the sole medium of payment.

Nobody could for a moment suppose, that the reference made to the average price of corn for the previous five years, by which the tithe commutations are determined, could have any tendency whatever, either to raise or to lower such price; but if in respect of the college rents and tithe commutations, instead of the two functions being thus separated, one being given to corn and the other to money, they had been both united in corn, just as for most purposes we do unite them in money, how then would it have fared with the price of corn? Upon the time of payment arriving, all tithe payers, not happening to have corn wherewith to make payment, must have become buyers in order to procure it, and thereby have temporarily much enhanced the demand; but as soon as the payments were for

the most part completed, much of the corn would no doubt have to be sold again by the tithe receivers, who must have other wants to be supplied for which the tithe received must furnish the means, and thus the supply would have been as much enhanced, temporarily, as the demand had been before; in each case, to the manifest disturbance of the price. Thus it will be seen, that we have, in respect of the college and other corn rents, and of the tithe commutations, a legally established mode of effecting the joint purpose, of measuring the value of the claims to be discharged and of making payment in discharge thereof, which mode of performing this joint operation is founded upon a principle *essentially different* from that we have in ordinary practice for the admeasurement and discharge of other claims.

For in the one case the standard commodity, CORN, is used for reference only; much as the standard weights and measures kept in the Exchequer are used. That is to say, the corn standard *simply indicates the amount to be paid;* being no more employed in effecting the payment, than is the standard bushel of

the Exchequer employed in measuring wheat in Mark Lane; and thus, the standard aforesaid is preserved from the *economical* danger of a disturbance in its value, by reason of large quantities being wanted when much payment is going on, and smaller quantities being sufficient when but little payment is going on, just as the standard bushel is preserved from the *mechanical* danger of a disturbance of its quantity, by reason of the rough usage of the market. Whilst in the other case, *i. e.*, as respects the established mode of measuring and paying other claims, the standard commodity, GOLD, is used, *both to measure the value of the claim and to effect its payment;* and being thus employed as the medium of payment, it follows, that its value can nowise escape the disturbing influence of changes in the quantity required wherewith to make payments: *the liability to such influence constituting the fundamental defect before adverted to.*

I need scarcely say that I regard the first-named plan (and not the last) as the philosophical type of a currency. Not, however,

in respect of its having *corn* for its standard of value, but solely in respect of its appointed standard having but one function to discharge, and not two; viz., the single function, of measuring value only; the other function, of conveying or paying over the amount so measured, being discharged by one or more convenient equivalents.

Perchance, in the fulness of time, and of knowledge, a currency upon this type may become the established one for all purposes; for beyond the difficulty which naturally attends every great change whatever, its establishment would seem to present no peculiar obstacle; and the saving it would effect would be very great indeed—probably some millions per annum; but inasmuch as it will appear, I think, from what follows, that the main advantages of a currency based upon true principles—viz., those which concern its general efficiency—may be secured by means which involve but a very moderate change indeed in our existing arrangements; it would seem to be the part of wisdom, and also to be more in accordance with our habitual caution, to

forego, in the present limited state of our experience upon this subject, the advantage apparently to be gained by pushing the principle at once to its extreme consequences, in favour of the superior safety of proceeding step by step, gaining experience as we go on, and by the success of one step, being emboldened to push on still further in the direction of the ultimate goal.

A specific plan, based upon these considerations, will be found set forth in the following pages.

The existence in our currency of the fundamental defect herein adverted to, and of even a much more serious defect still, the nature of which I have endeavoured to point out in the following pages, seems necessary to the solution of a problem, that, otherwise, would appear to be wholly inexplicable.—

Of all the nations of the world, it would seem that the British nation, and of the British nation the English portion in particular, is the most subject to those commercial derangements (or diseases) which, breaking out in the form of over-excited enterprise, pass into that

of fevered speculation; then begin to cool down into distrust, and finally terminate in the catastrophe of a panic.

But of all nations, it is the British nation, and of the British nation it is the English portion in particular, that—*a priori*—would seem to be most happily exempted from those devastating calamities, physical, political, and moral, which would appear, of all known causes, the most certain to bring commercial derangement in their train. For where do we find a country which is altogether so free as England, from the destructive ravages of earthquakes, tornados, floods, droughts, flights of locusts, and other such devastating natural calamities; from plague and pestilence, from war and tumult? And with all our defects on our heads, where do we find a people altogether more skilful and industrious, more intelligent and prudent, or more successful in all they undertake? Where, a government deserving and possessing so high a reputation for honesty and punctuality in the discharge of its engagements, and so little given to the dangerous practice of intermeddling with commercial affairs?

Or on the other hand (I may ask) where, in the case of a failure in the harvest, or of any other possible failure in any of the productive operations carried on, are there superior, or even equal means, for making good the consequent defalcations, or better knowledge or greater power to make the most of such means? Where so much wealth, wherewith to purchase from other nations? Where such prompt information, attainable and communicable, together with such extensive and rapid means of conveyance, from every part of the world which can help to supply our necessities? Again, where else than in England can be found such a variety of industrial pursuits, from which, failure in any one, will be all but certain to be compensated by success in others; and lastly, in what other country are there markets, which, so much as ours, are protected by the vast extent of their dealings, from those disturbances, caused by the arrival or the non-arrival of particular ships, or fleets even, by which the smaller markets of other places are often so greatly perturbed?

If we had no other test of a people's capability, prudence, and resources, than that of

the degree of their liability to commercial derangement, we must necessarily come to the very preposterous conclusion that of all nations (excepting perhaps the Americans) the British are the most *wanting* in capability, prudence, and resource; and that of all British subjects the people of England are pre-eminently deficient in these qualities, being therein vastly inferior not only to the Scotch but even to the Irish; for Scotland and Ireland have commonly remained but little affected by those commercial convulsions which have shaken England almost to the endangering of her social fabric; making men engaged in large operations, feel, as though the ground were mined under their feet.

In rejecting this manifest libel upon ourselves, we are logically driven to the conclusion that there must be *some other* explanation of the very strange anomaly, that, with every reason (apparently) why we should best escape commercial convulsion, we have in reality been its greatest victims.

Some eminent writers (of the so-called bullionist persuasion), apparently in despair of

discovering any error in our monetary or commercial arrangements, sufficient to account for the commercial convulsions to which we are subject, have made up their minds to attribute them altogether to "uncontrollable accidents; or to the ignorance and blind presumption of some—the over sanguine hopes or irrational fears of others—in a word, to the general imperfection of our human intelligence."*

But, were this the *true* explanation of these convulsions, then, (*cæteris paribus*) they must occur most frequently, and operate most severely, in the countries which are the *most exposed* to "uncontrollable accidents," and whose inhabitants are *most noted* for "ignorance and blind presumption," and for an excitable temperament, which at one time lifts them to the heights of "over-sanguine hope," and at another time plunges them to the depths of "irrational fear."

But England, surely, must, as aforesaid, be one of the last countries in the world to which this description can apply, even making all

* Norman.

due allowance for its high commercial state. Therefore, by the theory that refers commercial derangement to "uncontrollable accidents, blind presumption," &c., so far from our being of all people the *most* liable to these calamitous disturbances, we ought clearly to be much the *least* so; for with greater immunity from accident, we have better knowledge, safer institutions, and more ample resources; and in addition, we have means of communication, quite unexampled in the history of the world, for enabling us speedily to repair all such possible breaches in our resources as may occur notwithstanding.

So far, therefore, from this theory accounting for the fact that England is peculiarly liable to commercial derangements, it goes to prove, on the contrary, that England must be peculiarly free therefrom: a conclusion so notoriously untrue, as to demonstrate the total incorrectness of the theory.

The so-called Birmingham theory (as I understand it) attributes commercial derangement mainly to the want of a due supply of paper money; and what seems at first sight

an almost unanswerable argument in its favor, is the remarkable fact, that in the worst times of panic, an increase in the supply of paper money, has, if resorted to, never failed to stay the evil;—nay, that in the last great convulsion in 1847, the mere *conditional promise* of such supply, stopped the panic is if by magic.

But its staunchest advocate would surely not be prepared to maintain that the *fever of speculative excitement*, which is commonly the near precursor of panic (being the first phase of the disease, of which panic is the catastrophe), is ever brought about by a want of paper money; for, on the contrary, it can scarcely be doubted, that an excess of money (paper money included), is commonly one of the most powerful of the exciting causes of general speculative extravagance.

Again, speculative excitement and panic, are by no means the most prevalent in countries where paper money is but little used, as would naturally be the case *(cæteris paribus)* were the Birmingham theory true.

Indeed the Birmingham theory offers no explanation whatever of the origin of specu-

lative excitement; nor, does either that or the so-called "bullionist" theory, suggest any specific means for its prevention; although, from speculative excitement constituting, in most cases, the first stage of the commercial disease, it would seem to be that, in which a judiciously applied remedy would be most serviceable; for on such an occasion, surely, 'a stitch in time,' if effectually placed, might 'save nine,' many times told.

I do not feel quite sure, however, but that the leading supporters of the Birmingham theory may regard the early and more moderate stages of speculative excitement, *not as a state of disease*, but on the contrary, *as the most healthy condition of industrial affairs*; a condition, indeed, which it is right and proper to maintain, by means of a constantly increasing supply of paper money.

I am not aware that there is, before the public, any theory, excepting these two, which professes to explain the origin and the causes of commercial convulsion. The most prevalent *impression* concerning them appears to be, that when, as occasionally happens, there

is a concurrence of circumstances highly conducive to material prosperity, (as a succession of good harvests), the wealth which consequently fills the land, by "engendering high conceits," tempts men from the paths of prudent industry, and beguiles them into those of wild and unsound enterprise, which inevitably lead to disappointment and ruin. Further, that commonly, the disasters thus caused, are aggravated by bad harvests and other unfavorable circumstances, which in their turn, succeed to the former abundance.

The proposition, that the quantity of material wealth placed at our command, is much greater when the harvests are abundant than it is when they are scanty, and that the sudden command of wealth engenders vain confidence and overweening ambition, which bring forth rash speculation and unsound enterprise, surely needs no proof: nor, that the disasters consequent thereupon must be aggravated if they happen to concur with the diminished resources occasioned by bad seasons, &c.

No doubt considerable fluctuations in our prosperity—occasioning much folly and ex-

travagance in seasons of prosperity, and much enforced exertion and pinching economy in seasons of adversity, are attributable to these causes; but the most important of the very peculiar phenomena which our commercial convulsions present, are still left wholly without explanation; for—

1st. The peculiar susceptibility of our own country to these attacks, is just as far from being explained as ever; indeed, the very considerations advanced, if carried out to their legitimate conclusion, would prove, on the contrary, that England ought to enjoy peculiar immunity therefrom.

2nd. To support the theory, too, speculative excitement and panic ought each to exhibit a *distinct, unmistakeable connection*, with its assigned causes, in respect both of the time of their occurrence and of the length of their duration, as well as in respect of the degree of their intensity;—speculative excitement so concurring with unusual abundance, and panic with unusual scarcity.

But this is so far from being the case, that whilst, as regards speculative excitement, the

discordance is such, as to reconcile, must overtask the utmost ingenuity of the hardiest theorist: as regards panic, the attempt would be quite hopeless; for panic has fallen upon us without any immediate defalcation whatever in our material resources; and in respect to its duration and termination, there is not a single case, so far as I know, in which either the duration or the cessation of panic has had *the least reference whatever* to the time required for making good any of the deficiencies in our material resources, to which the inroad of panic could with the least show of plausibility be attributed.

Lastly, were panic, in truth, caused by an apprehension of insufficiency in our material resources, our alarm must surely point to those commodities, the scarcity of which was the especial cause of the apprehensions entertained. Thus for instance, if our supply of corn should appear to fall greatly short of our wants, our natural feeling would be a dread of starvation; but, even then, those amongst us who might happen to hold material capital, of any kind, in large quantities, would surely

not partake of the panic, feeling, that they at least were safe; because they could make use of portions of such capital, if suited to their purposes; or if not suited thereto, they might reckon on being able to exchange portions of it for what they did want.

But in times of panic, the very contrary of this really happens; for the large holders of material capital, excepting it be of the more marketable kinds, are then usually amongst the greatest sufferers; the real want being for currency, as every one actually concerned knows right well; and as any one who is *not* concerned may learn, by enquiring simply whose position is the best of the two, theirs who hold currency, not holding material capital, or theirs who hold the choicest material capital, silver even, but not currency?

In a chapter entitled Criteria, I have suggested such means as have occurred to me, for helping to discover, from the symptoms that present themselves from time to time in the progress of commercial affairs, the true nature of the causes by which the said symptoms are produced; so as to distinguish those

which originate in affections of the currency, from those which owe their origin to affections of material capital, or to some other cause.

It is much to be wished that this branch of the subject, should be so perfected, by means of searching discussion, and by receiving on all sides the suggestions of men acquainted with the subject, that a set of well-considered tests might be obtained, by the application of which, the nature of any symptom that might present itself would be at once ascertained. Such a work would obviously demand the concurrent efforts of many minds.

When trying to discover in what degree alternations in the abundance of material capital, on the one hand, and alternations in the abundance of currency on the other, may at any time respectively *share* in the production of commercial derangement, there is an important peculiarity in the currency, which we must by no means overlook, viz., that whilst, with *ordinary* commodities, fixedness of value is comparatively unimportant; abundance, which brings *cheapness*, being, with them, the great good; and scarcity, which brings *dearness*, the

great evil; for abundance and cheapness, even if attended with not a little fluctuation of price, are beyond all comparison, better than scarcity and dearness, even with perfect steadiness of price; with the *standard* commodity (or monetary unit) on the contrary, *immoveable fixedness of value* is the highest good; cheapness nothing;—or rather, cheapness, even though permanent, would be *not* a good, but an evil; for permanent *dearness* would seem to be one of the essentials of a good standard of value.

With regard to the fluctuations in the abundance and price of ordinary commodities, we know, from present experience,* what great fluctuations in the price of our food we can bear without any very great disturbance of the ordinary course of affairs; and moreover, without even a passing shade of that wide-spread alarm and perplexity, which every considerable departure from appropriateness in the supply of currency, fails not to bring upon us. Indeed, that an advance of a hundred per cent and more in the price of our chief article

* Written in May, 1854.

of food, marking, as that does, the occurrence of a most serious defalcation in the most important of our material resources, has not occasioned us more than a moderate amount of inconvenience, and has not brought upon us either perplexity or alarm, is a matter both remarkable and instructive; remarkable, because a scarcity of food is naturally one of the most alarming of all things;—instructive, because hitherto alarm and panic have been unhesitatingly attributed to defalcations in our material resources, *and above all, to a deficiency in the supply of corn.* But now, with a doubled price of corn, we are without a panic; a strong proof that the cause of panic has been misunderstood.

A fluctuation in the value of corn, sufficiently great even to double the price of our loaf, is thus proved to be at least an endurable evil; and, on the other hand, an abundant harvest, which should occasion an equal fluctuation, but in the opposite direction, would no doubt be regarded as a great blessing to the community.

But were similar fluctuations ever to take

place in the value of the pound sterling,—could they be thus borne? It seems to me certain, on the contrary, that were gold suddenly to fall in value by one-half, it must prove a stimulus which no man, or body of men, could bear with impunity,—a maddening stimulus that would go near to throw patient industry and cautious enterprise into utter discredit, and make us, for a time, little better than a horde of wild and reckless gamblers;—and as certain, also, that were there to be a sudden doubling of the value of the pound sterling, then, unless the most vigorous and even dictatorial measures were instantly adopted, it must in all human probability go near to disorganise society altogether; filling the land with tumult and bloodshed, if not anarchy.

In short, currency is *sui generis;* for, totally unlike all other known commodities, it just as much requires to be guarded from excess in quantity as from insufficiency; because, in the long run, abundance above a certain just medium, is quite as inconsistent with the correct discharge of its very important functions as scarcity below such medium; for an excess

in the currency supplies the intoxicating dose of delusive prosperity, which brings on speculative excitement, the sure forerunner of qualm, distrust, and panic.

Looking, therefore, upon absolute fixedness of value, as beyond all doubt and question the most important attribute of a good currency, and bearing in mind that such attribute cannot possibly co-exist with a liability of the currency to become either abundant or scarce, comparatively, we perceive this singular peculiarity of the currency, viz., that *upon the nice regulation of its quantity, depends the preservation of its most essential quality;—correctness of quantity and perfection of quality being therefore inseparable;*—a peculiarity too, which makes it clear that a mode of regulation which may answer tolerably well for governing the quantities in which *other* commodities are supplied, may, nevertheless, be of a nature far too rude and too little sensitive, to allow of its properly discharging the very delicate task of regulating the quantity, *and thereby maintaining the quality*, of the currency.

Viewed in connection with our liability to

commercial derangement, it is evident that the supply of currency is a vastly more delicate matter than that of material capital; but it is not necessarily the case that such liability is so connected with either the one or the other, or even with the two conjointly, as to exclude all other influences.

My own impression is, that our liability to commercial convulsion is traceable to the very extensive, and, at the same time, very unguarded use we make of credit;—unguarded, that is, by due precaution against its misuse or abuse.

My main purpose, however, concerns more particularly the portion of our acting currency, which, from its depending for its validity, and therefore for its power of officiating as currency, upon the commercial soundness of its issuers, constitutes a branch of the credit system; and, in connection with such portion of our currency, certain important effects, which changes in the state of credit, produce, in disturbing the value of our money; *i. e.*, in altering our standard measure of value in exchange. Particular consideration is given to this

subject in the following pages; I will, therefore, here content myself with a few general remarks.

Sound and wholesome credit, is at once a sign and a test of the progress of civilization; for the more extensive shall become the diffusion amongst us, of intelligence and enterprise, joined with industry, prudence, and trustworthiness, (all attributes of true civilization), the wider will become the field within which credit may be employed with safety and advantage, both to the parties immediately concerned, and to the community as a whole.

But credit, like most other potent instruments, has its dangers as well as its advantages,—its abuse as well as its use; nor can we ever enjoy its use in safety, until we shall have established the necessary safeguards against its abuse.

The extensive employment of paper money, but imperfectly secured, is but part and parcel of a very general use of credit,—often misapplied, and in too many cases unsound,—which prevails amongst us; such misapplication, and such unsoundness, being no doubt attributable,

in a great degree, to individual imprudence or credulity, but perhaps equally to legislative errors and omissions; some of which errors, (to wit, the usury laws, and the law that formerly limited the number of partners in banks), although they have been practically corrected, have nevertheless left, in our commercial habits and customs, certain injurious traces, which time alone can thoroughly efface; whilst others remain still uncorrected, and therefore still go on generating unsoundness in our commercial relations.

It is to this misapplication of credit, and to this taint of unsoundness therein, that the fearful evil of commercial convulsion, is for the most part (as I think) distinctly traceable; for—

Speculative excitement, the first phase of commercial derangement, would come to be confined within very narrow limits indeed, should a misapplied credit cease to place the property of others, in the hands of the over-sanguine and the unprincipled, there to be exposed to risks, which the real owners of the property would never *knowingly* incur.

And panic, the catastrophe of commercial derangement, (the moving spirit of which is the general dread amongst men of business, of being unable to obtain payment from others, or unable to meet their own engagements,) could manifestly have no existence, but for unsound and misapplied credit; for, as without credit, there would be neither payments to be obtained nor engagements to be met, so, also, were credit in the main sound and well-applied, there could not possibly arise that general fear of engagements being found extensively unprovided for, which constitutes a panic.

To prune credit effectually, and thereby to make it sound and robust, and by suitable arrangements to discourage as much as we can its misapplication, is the real task to be grappled with.

And thus to purify credit, and direct it to its legitimate purposes, would not be to narrow its scope; but, on the contrary, would be to encourage its useful extension; than which few things could possibly tend more strongly to promote the general prosperity: for it is by

means of credit, that capital, when the property of the unenterprising, the incapable, and of those engaged in other pursuits, is enabled to reach the hands of men possessing the requisite knowledge and skill, honesty and enterprise, for so wielding it as to bring its productive powers into the most efficient action: making it, by that means, best to subserve the interests of the community, in respect of the production of the things necessary to our life, health, comfort, and security; and, at the same time, by offering the most acceptable rewards, to the possessors of knowledge and skill, honesty and activity, taking the most effectual means to encourage the general and earnest cultivation of those valuable qualities.

There are certain strange and grievous anomalies attendant upon our commercial convulsions, which, as related to each other and forming a whole, have never been explained; and which no effectual attempt has ever been made to remedy.

It is but just to the Birmingham theory, however, to say, that as regards the most striking of these anomalies, it both explains

the *immediate* cause, and offers a tried and effectual remedy; but it is unfortunate for that theory, that it offers the self-same remedy when the disease is of an opposite nature, and when, consequently, the specific would but aggravate the disorder.

Although the changes which material capital undergoes, either in its total quantity, or in the proportions in which it continues floating or becomes fixed, may not have much concern with the commercial derangements under consideration, there can be no doubt whatever of their great influence upon our national prosperity and happiness; as witness the great potato failure in Ireland. And although it is but seldom that government can safely interfere to counteract the influence of these changes (in capital) upon the prosperity and happiness of society, yet it is obviously important, that in those exceptional cases in which it does interfere, government should throw its weight into the right scale.

For instance:—in times when an unusual abundance of material capital excites men to throw off the ordinary restraints of prudence,

and to embark in unwise and perilous enterprises, the government may wisely remove some of the stimulating excess, by applying it in the vigorous prosecution, upon a large scale, of works of national defence and convenience.

Thus the construction of ships of war, the formation of harbours, the erection of fortresses, lighthouses, and public buildings in general, the making of roads and the fitting out of exploratory expeditions, &c., if judiciously timed, might absorb much capital just when it could well be spared; when, indeed, its useful absorption would moderate the effect upon the public mind of sudden and unusual prosperity.

Further, by this forethought in securing the execution of its great works in times when the means were abundant, the government would obtain the power of avoiding such expenditure in times when the means are scanty; when, indeed, the pressing duty of reproduction, wants all the means, and all the energy, that could possibly be devoted thereto.

Every prudent man, in the management of

his individual concerns, will thus, in times of prosperity, take advantage of his increased means, to extend and improve his lands, to enlarge his premises, and to increase his working stock and implements, &c.; whilst in times of adversity, on the contrary, he will husband his resources, by avoiding all expenditure which can be safely deferred.

By a strange perversity, however, the cause of which demands a close investigation, our national concerns are managed in a precisely opposite way; for we pay no particular attention to our public works in times of unusual abundance, when it might even be an advantage to us to spare the means; but in times of unusual insufficiency, *we actually abstract a serious portion of the then already too scanty means, and apply them to the construction of works of no pressing necessity whatever.*

That we have not, in times of high abundance, taken the course herein pointed out, as appropriate thereto, must, admitting the advantages of such course, be attributed to inadvertence; indeed, the necessity for precautionary measures is but seldom forced

upon the attention in times of prosperity, nor is there then anything to mark particularly the advantage of the measures herein recommended.

But when we are in a state of famine, it seems obvious and indisputable, that, on the one hand, our manufacturing energy—stimulated to its utmost exertion—should be directed to the production of those commodities which will best avail us in the purchase of supplies abroad; and that our commercial energy should put forth its utmost power, in exporting such commodities as fast as they are produced, and in procuring and bringing home food in return; whilst, on the other hand, our agricultural energies should be tasked to their utmost, in carrying on that tillage of the earth, upon the extent, efficiency, and success of which, under Providence, the replenishment of our empty garners at the return of harvest then mainly depends. Nor can the danger and suffering by which we are at such time surrounded, fail, one would think, to force these truths upon the attention of all reflecting men.

With so plain a course before our eyes, and incurring such fearful responsibilities if we go wrong, how do we really proceed?—Why, just when every loom and every hammer, every plough and every spade, throughout the whole country, ought to be worked without intermission, we find the workshops and the fields alike deserted: men able, willing, and even anxious to labour, are seen loitering in crowds about our streets in a state of enforced idleness, menacing the public peace. Or, if the government interfere, as it did in Ireland a few years ago, then are these men set to work, *not* upon the task (at such time urgent beyond all others) of producing something wherewith to procure food from other countries in exchange, nor upon the scarcely less pressing duty of cultivating the land to the utmost, in order that the famine may at least end with the next harvest; but they are employed upon tasks that have no relation whatever to the urgent necessities of the case,—tasks, indeed, sometimes useless altogether.

But it is not from choice that we thus fall into a course so manifestly contrary to reason;

the mechanism of production and distribution, is, at such times, evidently deranged; and there appears to arise, from some quarter or other, a *necessity* constraining us to act in a manner so repugnant to the plainest dictates of common sense, as well as to all sound economical principles.

Correct principles of political economy are those, which, (without any direct interference), so govern men, through their pecuniary interests, as in the main to cause them, each in the pursuit of his individual gain, to take the precise course which is most promotive of the general good.

But the general good will be best promoted, where the collective effect of the operations of individuals, is, to carry on affairs, much in the way that a wise and energetic man would conduct his individual affairs, supposing these to be of a nature to present, in miniature, a counterpart of the affairs of the community at large. When, therefore, we thus find, that in a matter of such vital importance, as the procuring, in a famine, of a present supply of food, and the working to ensure a sufficiency

at the next harvest, the collective efforts of individuals result in a course of action which is completely the opposite of that which a provident, able, and energetic man would adopt, we can come to no other conclusion than, that, either the economical principles in operation are unsound, or, that if sound in the main, they require further development, in order to provide for these mostly deeply important, although exceptional, cases.

It would seem to be the manifest duty of the Legislature, to search for, and root out, the vicious principle, be it what it may, from which these injurious anomalies spring.

Whilst the heavy calamities which commercial derangement may have brought upon us, are of but recent occurrence, men may naturally be expected, *each in his individual capacity*, to profit by the experience bought so dearly; but, as the period of the visitation recedes, the impression will naturally grow fainter and fainter; also new men will take their places in the ranks of commerce; who, not having shared the suffering, will not have purchased the experience yielded thereby.

But if we take these sharp lessons of adversity as addressed to us in our *individual* capacities alone, we shall miss half their value; for it is seldom indeed, that wide-spread calamity falls upon the community, without furnishing matter of admonition also to the governing body.

To repair the present injury, and to provide, if possible, against the recurrence of like misfortunes, will demand not only that men as *individuals*, shall, for the future, exercise more prudence, and make more strenuous exertion, but also (in most cases), that *national* prudence, and *national* energy, shall be brought to bear upon the matter, in the shape of improved legislation.

We often hear men reproached, and justly so, for their weak reliance upon governmental help, when by prudence and exertion, they might help themselves; but surely the legislature is at least equally open to reproach, whenever it neglects to apply, where necessary, that which it alone can wield, viz., the combined prudence and energy of the community, embodied in the form of an appropriate law.

Men, individually, can but exercise what may be termed *retail* prudence ; for national, or so to call it, *wholesale* prudence, is *the essential function of the legislature;*—whose members, therefore, having sought, and voluntarily taken upon themselves, the duty of its exercise, in all cases wherein it shall furnish the best means of grappling with the evil, cannot, without the most blameable neglect, allow a season of national calamity to pass by, without a careful investigation of its cause, and a well considered exercise of their legislative power, if such be called for by the circumstances of the case.

I think that the standard measure of value in exchange, has not met with so much attention from the legislature as its importance fairly demands.

That the standard ought to possess uniformity of value, *in the highest attainable degree,* scarcely requires proof :—the less changeable the value of the standard, the more exactly will all who enter into monetary engagements, whether to pay or to receive, (that is to say, all persons whatever,) know what they under-

take, or what they will have to rely upon; and the more will the dealers be enabled to give their minds exclusively to the articles they deal in, undistracted by the necessity for calculating monetary fluctuations;—an application, in truth, of the division of labour principle; the State caring for the standard, and the dealers for the commodities.

But whilst the standards of length, weight, and capacity, to say nothing of that of time, have been the objects of scientific investigations, instituted by government, and carried on at the public expense, by men held to keen responsibility by their own high reputation, the still more important *standard of contracts and measure of values in exchange* has been almost left to take its chance.

This has happened, probably, from the want, in the public mind, of the previous knowledge, that such an investigation was called for. The standards of weight and measure, when once made correct, cannot become wrong, except by undergoing some physical change, which unless very minute indeed, must be obvious, or at least readily ascertainable; and the errors

of our chronometers can be always found by observation of the heavenly bodies. But an alteration in the value (in exchange) of the monetary unit, comes in such an impenetrable disguise, that probably few minds *are even prepared to entertain the idea of such an alteration having ever occurred in their time.* We are accustomed to see the value (in exchange) of other commodities rise or fall, in comparison with that of the monetary unit, but, in such cases, we always assume that the change is not in that unit, but in the *other commodities.* Now, though in the great multitude of instances this assumption is in the main correct, yet, in some few cases it is *wholly incorrect.* But these exceptional cases are apt to remain unnoticed; the general correctness of the rule throwing us off our guard. But for the delusion thus created, surely, when we witness the very strange phenomenon of a *simultaneous* rise (or fall) in the value of commodities in general, while that of gold alone appears to remain stationary, it must occur to us, that there are *two* modes of explaining the appearances; viz., 1st, the more obvious one, that

the change is in the ordinary commodities.—2ndly, the less obvious one, that the change is in gold. And upon reflection, it must be obvious that this last explanation is much the most probable one of the two.—If there be ten thousand kinds of commodities, the chances against *their respective values all changing at once, and in the same direction, whilst that of gold stands still*, are something like ten thousand to one.

Thus, to a fast growing and observant child, all surrounding objects of stationary bulk, as men, women, chairs, tables, houses, fences, &c., appear to be growing *shorter*, and himself to remain unchanged; and although he may be unable to imagine any reason for so surprising a phenomenon, yet, the strength of his perceptions will not allow him to parry the fact. But when his powers of reflection gain strength, he will come to *understand* that the quick increase of his own stature is the true and only cause of the appearance in question. Still, it will be for a long time a matter of *understanding alone*, against which his perceptions will rebel; for, having no con-

sciousness whatever of his own growth, his *feeling* will still be, that all the world is getting shorter.

This difficulty besets the paths of science in every direction. Sir John Herschell mentions it in connection with astronomy, and beautifully describes a few of the more prominent instances in which that study demands the surrender of some of our clearest and strongest perceptions at the shrine of inductive reasoning. For instance, that although *apparently* quite at rest, we are in truth constantly moving with inconceivable velocity, together with the earth we stand upon, and all that it contains. Again, that our friends in New Zealand are living under our feet, and (as it seems to us), turned upside down, together with their houses, their trees, their ships, and every thing about them;—while to them, it must seem, in like manner, that *we* are living upside downward, under *their* feet.

The science of political economy also demands that we should yield up many of our most rooted prepossessions. Among these, one of the most difficult to eradicate, is the un-

conscious assumption previously adverted to, that the value of money is fixed and immoveable; and that, therefore, all changes in price are referable to alterations in the value (in exchange) of other articles. The truth being, that, inasmuch as gold is the basis of our money, every exchange of any other article for money, constitutes, virtually, an exchange of such article for *gold;* and therefore, when the price of such article varies, it is quite possible (and doubtless sometimes true) that the change *is in the value of the gold.*

This phenomenon is nearly as puzzling as would be an occasional, but occult change, in the length of the yard measure; by which pieces of cloth, &c. would be made to appear longer at one time and shorter at another, without any known cause for their variation. Or, as the changes in the direction of the magnetic needle really were, for a long time; and indeed, are still, under some peculiar circumstances.

Other striking instances, in which the path of truth requires to be cleared, by the beating down of some of our strongest prepossessions, will appear in the progress of this inquiry.

Chapters II and III, contain the pith and marrow of what I have to advance upon the subject of currency; Chapter II, treating of the office of currency, together with the nature and conditions, of the demand for and the supply of currency; and Chapter III, containing a proposition for an addition to our currency; suggested, in the hope, that, if adopted, it will neutralize, in a great measure, the injurious effects of changes in the relation between monetary demand and monetary supply; such changes being (as I think) the *immediate* cause of most of our commercial derangements, whatever may be the more *remote* causes thereof.

Respecting the principle of the said proposition, although it has never been formally introduced into the currency, it is by no means either new or untried; nor would its introduction involve any abandonment of the metallic standard; its purpose being simply to provide the means of administering a temporary but *immediate* corrective of the supply of currency, in case of any sudden change in the relation between demand and supply,—

whether on the side of insufficiency, in the supply, or on that of excess—leaving it to the more gradual operations of the traders in gold, to adapt the *average* supply to the *average* demand; as they alone have power to do. Just, as in a steam engine, it is by the instantaneous and powerful action of the "governor," that the *immediate* supply of steam is adapted to the *immediate* wants of the engine; whilst, it is by the slowly operating changes in the supply of fuel to the furnace, that the *average* production of steam is adapted to the *average* demand of the engine.

Other chapters have been added, in order to allow of the consideration of certain topics, which, although bearing more or less upon the general subject of this inquiry, must have interrupted the main current of the argument, had they been there introduced.

I am quite sensible of being open to the charge of employing a somewhat strained phraseology, and of having fallen into not a little repetition.

The first defect I have found unavoidable, from the words which are commonly made use

of, in connection with the subject of currency, being altogether wanting in scientific precision: the word money, for instance, being used in a variety of significations. The last defect must be set down to the want of skill; combined, however, with a desire to place my ideas before my readers in various points of view; because, in conversations upon the subject, I have found that almost every one looks at it, in a way, which, is in some respects, peculiar to himself.

CHAPTER II.

THE OFFICE OF CURRENCY.

The sole use of Currency is to facilitate the great process of exchange, by superseding the necessity for barter. Nor has it any other use than what is either directly or indirectly incidental to this purpose. For were it the case in any country, that no one therein had ever occasion to exchange any property or privilege which he possessed, or any service that he could render, for something which another possessed or could render in return; or, that only such exchanges were desired as barter could readily accomplish; then, in such country, currency would manifestly be of no use, nor indeed would it have any existence.

Now the total quantity of currency (or media of exchange) of all kinds (whether coin, Bank of England notes, Country notes, or any other matter or thing whatever, that really officiates as a medium of exchange)

which, at a given time, the convenience of the country requires—taking the different degrees of efficiency duly into account—must clearly depend upon the number and amount of the dealings which at such time men have occasion to transact, and upon that alone. Thus, were it ascertained that the dealings going on in the whole country at this particular moment, require for their easy completion the use of just a hundred millions' worth of currency, then manifestly ninety millions' worth would be not enough by ten millions; and a hundred and ten millions' worth would be too much by ten millions; consequently were there but ninety millions extant, then one-tenth part of the dealings must either come to a stand altogether, or be effected by means of barter; whilst if there were a hundred and ten millions extant, there would be a surplus of ten millions, to be got rid of in some way or other, in order to relieve its holders from the loss of interest consequent upon its unproductiveness. In other words, could we at the present moment arrest the hand of every one engaged in the payment of money,—

ascertain the sum that each was paying, and form a total of the whole,—then, assuming that at such time business was going on with ordinary facility, we should by such process learn the exact sum that would just suffice to effect the whole of the paying and receiving required at this particular moment by all the transactions of the country. If by any process a portion of such sum were to be either abstracted or rendered unserviceable (as in the case of country bank-notes when the bank stops payment) then, unless such portion were at once replaced, a corresponding portion of such transactions must of necessity remain uncompleted, or be completed by means of barter.

Those arrangements, therefore, which are depended upon to regulate the quantity of the currency, cannot be considered as successful unless they have the effect at all times of keeping the supply of currency just upon a level with the wants of the buyers and sellers; *so that there shall never be on the one hand a suppression or even a hindrance of dealings, from the want of a suitable supply of currency*

wherewith to effect them; nor, on the other hand, a surplus of currency needing to be got rid of.

In other words, the said arrangements MUST NECESSARILY BE DEEMED UNSUCCESSFUL if, starting from a time when the currency is in the normal state of correct adaptation, it shall ever happen *from any cause whatever* that the effective quantity of the currency shall suffer change, (whether by an increase or by a decrease thereof), at a time *when there is no corresponding change in the number and amount of the dealings which men have occasion to transact;* and when, therefore, the currency, from such change in its effective quantity, must become so far unsuited for fulfilling the purpose of its institution.

Therefore, if the changes which take place from time to time in the state of confidence or credit, be ever found to bring about either an increase or a diminution of the sum of the effective currency *irrespectively of the sum of the wants of the dealers for the means of accomplishing their dealings:*—

Or if changes in the wants of foreign countries for currency shall ever be found to cause

an addition to, or a subtraction from, our effective currency, *irrespectively of the sum of our own wants* :—

Or if by reason of changes in confidence or credit, or by reason of changes in the wants of other countries for currency, the sum of our effective currency shall ever be *prevented* from increasing or diminishing, when by reason of a change in the wants of the dealers, such increase or diminution shall have become appropriate :—

Then, in either case, or in any similar case, the arrangements or influences which are looked to for the proper regulation of the effective quantity of the currency, must necessarily be judged to be unsuccessful in accomplishing that purpose.

I may here venture at once to say, that in my mind the very homely and but little heeded truth herein adverted to, viz., *that currency being the instrument of exchange, and being of no other use whatever, we should always aim at having just as much as our various dealings require for their due accomplishment, and no more ; and should therefore provide (so far as we have the*

means) for increasing our supply correspondingly whenever our dealings shall increase, and for diminishing it correspondingly whenever our dealings shall diminish—lies at the root of the currency question; nor do I think that any decided improvement in our currency arrangements is likely to be effected until this homely proposition has taken its place in the public mind as an "established and influential truth."

To argue (as some have done) that a fair proportion of the whole amount of bullion which the commercial world possesses, must necessarily fall to our share (which is not denied) and that the total quantity of the media of exchange employed in carrying on our dealings, must and ought to be regulated with strict reference thereto, seems to me altogether beside the mark; for it implies that the quantity of effective currency which our dealings and those of other countries require for their easy accomplishment, *has some necessary connection with the existing quantity of bullion* in the world available for currency purposes. But this is surely a mistake, inasmuch as it is by no means impossible, or even unlikely, that

within but moderate intervals of time, the sum of the dealings of the whole commercial world may at one time rise much above their *average* amount, and at another time fall much below that amount; although it may be pronounced physically impossible, that within such intervals the sum of the bullion which the commercial world possesses, can undergo any such changes.

It may be objected, that whether the mass of bullion which is available for currency purposes throughout the commercial world, can or cannot accurately accommodate itself at all times to the mass of dealings which the commercial world has to transact; seeing that this last may, and probably does vary considerably, yet that from this evil of inaccurate adaptation, whatever may be its extent, there is really no escape. The validity of such objection may perhaps be determined by the considerations about to be entered upon.

I would in this place merely observe, that the existence of *any* necessary connection, whether direct or indirect, between the commercial world's available stock of bullion, and

the total quantity of media of exchange which the commercial world may find it convenient to make use of, is a matter not to be assumed (as is rather frequently done), but one to be *proved;* seeing that we do by no means confine ourselves to the sole use of bullion or coin as a medium of exchange. And further, that I am constrained to dissent entirely from the opinion entertained by many able writers upon this subject, as lucidly set forth in the following words:—"It is universally admitted by persons acquainted with monetary science, that paper money should be so regulated as to keep the medium of exchange, of which it may form a part, in the same state with respect to amount and to value, in which the medium of exchange would exist were the circulating portion of it purely metallic:" for I believe, on the contrary, that had we a purely metallic circulation, its *quantity* could seldom be in a state of correct adaptation to the wants of the community for the medium of exchange; inasmuch as the demand for such medium is, and ever must be, subject (from causes that will be particularly adverted

to hereafter) to fluctuations that are both too sudden and too considerable to admit of a purely metallic circulation accommodating itself thereto. And further, that every departure from the state of correct adaptation must necessarily be attended with a *disturbance of the value* of such purely metallic circulation. Hence, in respect both of quantity and of value, a purely metallic circulation cannot, in my mind, be regarded as the type of a circulation adapted to our wants. On the other hand, it seems clear to me that a mixed currency, composed partly of coin and partly of paper money, admits of all changes in the demand being fully satisfied by adequate changes in *the paper portion of the currency only*, whereby the demand for gold would stand *wholly unaffected* through all possible changes in the demand for currency; and its value, and therefore the value of the auxiliary paper, would be maintained throughout, unchanged and unchangeable. Hence I cannot but conclude that, both in respect of correctness of quantity and of uniformity of value, a mixed currency *skilfully organised or wisely administered*, might

and would attain a degree of excellence which, as respects a currency purely metallic, seems to be out of the range even of possibility.

From its office being purely interventional, Currency has been termed, "a medial commodity;" otherwise the "agent," "instrument," or "medium of exchange."

In the discharge of its function as the medium of exchange, currency, or rather its unit the pound sterling, has (almost of necessity) become with us the ordinary standard of value in exchange; by referenec to which, the values in exchange of the various commodities, privileges, services, &c., that are made the subjects of exchange, are severally measured and defined.

And this use of the pound sterling in so measuring the *values* of commodities, is strictly analogous to the use of the pound avoirdupois, the yard, the gallon, &c., in measuring their *quantities*. The monetary standard may be correctly said to measure the *quantity of value* that a given commodity bears, whilst another standard measures its *quantity of weight*, or its *quantity of extent*, as the case may be.

In the discharge of the same function, currency also measures and defines the amounts of all pecuniary engagements; every such engagement being in truth merely a step in the process of exchange, for where there are no exchanges no such engagements can arise.

The unit of the currency, that is, the pound sterling, therefore, either directly, or by means of its fractions the shilling and the penny, is the standard measure both of values in exchange and of money contracts, *nor can its value be disturbed without perplexing all exchanges, and virtually changing the terms of all the money contracts that are subsisting at the time of such disturbance.*

Fixedness of value in regard to the pound sterling, therefore, stands upon the same footing, and has the same *kind* of importance, that fixedness of weight, of length, and of capacity, have in respect of the pound avoirdupois, the yard measure, the gallon, &c.; and in commerce, the *degree* of its importance in respect thereto, may be gathered from these considerations, viz.: 1st, That in every contract for the sale of a commodity by weight or by

measure, exactitude in respect of the *value* of such commodity, as measured by the monetary unit, is just as important as exactitude in respect of its *quantity* as measured by the unit of weight, of extent, or of capacity; and 2ndly, That in the transaction of business the number of instances (and their extent) in which the pound sterling (or its fractions the shilling and the penny) are applied as a standard for the purpose of measuring value, greatly exceeds that of the application of all the other standards put together; for whilst there are but very few sales or exchanges, in which the value of the things sold or exchanged is not ascertained and expressed in money, there are thousands of sales every day —as those of horses, houses, pictures, and other articles—in which there is no reference whatever to any quantity that is measurable by either of the legal standards of quantity.

From these considerations it would appear, that so far as business transactions are concerned, unchangeableness in the standard of value in exchange (the pound sterling), is much more important than unchangeableness in all the other legal standards put together.

In short, unchangeableness is the prime requisite of *every* standard measure whatsoever; for without it, permanent accuracy of definition is impossible; and the importance of this quality in any *one* standard must be (other things equal) proportionate to the extent and frequency of the application of such standard.

But fixedness of value in exchange, in respect of any article whatsoever, and therefore in respect of currency, demands absolutely as the essential condition of its existence, *that there shall be a fixed relation between the demand for and the supply of such article.* For any change in such relation will inevitably raise or lower the value in exchange of such article; an *increased* pressure of the demand upon the supply raising such value; a *decreased* pressure of the demand upon the supply lowering such value.

Be it observed, however, that in respect of currency as of other commodities, if a change in the demand, however occasioned, be attended by an immediate and corresponding change in the supply,—or if a change in the supply, however occasioned, be attended by an immediate and corresponding change in the

demand, there will be so far no change whatever in the relation between demand and supply, and therefore no disturbance of the value in exchange of the commodity in question.

But if at any time the demand for currency shall increase or diminish, and at such time something shall prevent the supply from at once fully accommodating itself to such change in the demand; or if at any time something shall have the effect of increasing or diminishing the supply of currency, when the demand shall not have undergone a similar change, *or perchance when the demand shall have undergone an opposite change,* then, in either case, must the value of the monetary unit most assuredly be disturbed.

It may be inquired, what is the normal state of the currency as to demand and supply? *i. e.*, when (and for what reason) is the supply to be considered as *correctly* adapted to the demand, so that it would be a misfortune were it to become, in comparison with the demand, either more or less copious? The answer is, as aforesaid, that currency being a mere medium of exchange, or implement by the aid

of which buying and selling is more conveniently accomplished than it could be by means of barter, and having no other use than what is incidental to this purpose, either directly or indirectly, it is obvious that the quantity of currency required in the country at a given time must (other things equal) bear strict relation to the quantity of buying and selling, paying and receiving, that at such time has to be accomplished by its intervention. For the more interchange there is of commodities, privileges, services, &c. amongst the respective members of the community, the more extensively will the intervention of currency be required, and *vice versa*. In order, therefore, that the currency may satisfactorily accomplish the very useful purpose for which it is employed, and at the same time that it may not entail any needless expense upon the community, its quantity ought at all times to be just enough (and not more than enough) to allow of the facile accomplishment of all the various dealings that men may think it their interest to enter into; *so that no honest dealing whatever that men may mutually desire to have,*

shall either be suppressed or be driven back upon barter, for want of a due supply of currency wherewith to carry such dealing into effect. Any excess of currency above what this requires is obviously a mere surplusage, and is contrary to economy; whilst all below this is an insufficiency, and is against convenience. When, therefore, there is no such excess on the one hand, nor any such insufficiency on the other, the currency must manifestly be in its normal state as to demand and supply. For the legitimate demand being then accurately supplied, any change whatever in the relation between demand and supply must necessarily be a change for the worse.

It may be asked, by what signs and tokens are we to judge at a given time whether the currency is or is not then in this normal condition?

The presence of health is always proved by negatives, viz., by all symptoms of disease being absent.

The symptoms of disorder in the currency, (like the symptoms of disorder in our bodily health) are often very difficult to be under-

stood, from their great similarity to the symptoms of other disorders in our industrial economy. But although from this cause the presence of certain symptoms may not of a certainty shew the existence of a given disorder, the absence of such symptoms may nevertheless prove the absence of such disorder, by proving the absence of all disorder whatever.

If therefore at a given time the following symptoms be absent, *i. e.*, if there be no prevalent desire to export gold from the country, nor any to import it into the country; if there be neither speculative excitement amongst the holders of money on the one hand, nor any want of confidence amongst the producers and holders of material capital (or money's worth) as to their power of disposing of their commodities upon ordinary terms in the due course of business, and thereby of meeting their engagements with ordinary facility; on the other hand,—if there be no run of wild enterprise on the one hand, nor any denial of the means of conducting sound and well considered undertakings on the other,—it may be pretty safely predicted that at such time there

is no considerable departure from the normal state of relation between demand and supply as respects the currency.

The question here arises whether, in case of the normal state of correct adaptation being once fairly attained, there is thenceforward any great likelihood of its being disturbed?

Before this question can be solved, it must be ascertained first, in respect of the DEMAND for currency,—whether that is a tolerably *even* demand, *i. e.*, one that changes but little, and that but slowly; a demand, therefore, to which the supply may be naturally expected to accommodate itself with ease; provided there be no artificial obstruction thereto; or whether on the contrary, it is not the *reverse* of an even demand; that is to say, one *subject to sudden extensive and unlooked-for changes.* And secondly, In respect of the SUPPLY of currency, —whether that is of a nature which allows of its accommodating itself *easily and at once* to such changes in the demand as may from time to time occur. Or whether on the contrary, its nature, and the peculiar influences to which it is exposed, are not such as to render its thus

accommodating itself to the exigencies of the demand, a matter of great uncertainty; and further still, whether its nature and the influences which operate upon it, are not in truth such as to render it possible, and even probable, that the supply may at times not only fail thus to adapt itself to the variations of the demand, but may *even vary in the opposite direction to that which the exigencies of the demand require;* increasing when that is upon the decrease, and decreasing when that is upon the increase.

AS TO THE DEMAND FOR CURRENCY—ITS UNIFORMITY OR OTHERWISE.

Inasmuch as the use and the only use of currency, is that of aiding the great process of exchange, the legitimate demand for currency will at any time be as the number and amount of the transactions then requiring to be accomplished. If, therefore, the sum of the buying and selling, paying and receiving, which is going on throughout the country,

be at one time much the same as it is at other times, then will the demand for currency be at one time much the same as at another. But if, on the contrary, the sum of the dealings throughout the country be found to undergo sudden and considerable changes, then of necessity must the demand for currency undergo sudden and considerable changes also.

The sum of transactions or dealings requiring the aid of currency for their due accomplishment, is unquestionably much influenced by the changes of the seasons, both from natural causes—as the ripening of the great autumnal crops, the superior or inferior abundance of the harvests, as the seasons may have proved favorable or unfavorable, &c.—and by reason of the custom of periodic payment in respect of many very large classes of transactions, as rents, dividends, annuities, salaries, tradesmen's bills, &c. &c., which custom has the effect of making certain periods, as regards paying and receiving, much the busiest portions of the year. The sum of transactions is also subject to considerable

change from the influence upon trade, of war, and other great calamities, and from changes in the commercial policy of the great producing and trading countries of the world.

With reference to the effect of the ripening of the crops, upon the sum of transactions or dealings requiring the aid of currency, it may be observed, in the first place, that on the one hand GENERAL EVENNESS OF PRODUCTION throughout the country, whenever it shall take place, (the several crops then for the most part yielding a fair increase, and coming in about their usual times,) will tend to minimise the necessity for exchanges; because (other things equal) production, especially that of the more bulky commodities, takes place as much as possible at, or as near as may be to, the place in which it is wanted; and with general evenness of production, this end would be most nearly approached, and then exchanges would become the less needful. Whilst on the other hand, great UNEVENNESS OF PRODUCTION (viz., in some districts, exuberant crops of certain kinds with but scanty crops of other kinds, with just the reverse in

other districts,) must obviously necessitate extensive exchanges, in order to correct the disparities.

And in the second place, considering the immense value of the great autumnal crops when harvested, and that this, by far the greatest mass of property of any one kind (excepting the land it grows upon) which the country ever has in its possession, has been silently accumulating during the greatest part of the year *in an unmarketable form*, and now at the end of the harvest has suddenly passed into a highly marketable shape, it is easy to understand the possibility, or rather the probability, that the conclusion of the harvest may bring on a large increase in the demand for currency. The wonder, indeed, is rather how it is that the advent of so powerful a cause of disturbance in the currency is not marked by much more obvious effects than any that are commonly observed. Some explanation of the manner in which great changes in the demand for currency are for the most part met without much noticeable effect, will be offered shortly.

With reference to the effect of the custom of periodic payment in swelling the sum of transactions at the particular times when such payments are being made, it seems unnecessary to enter into an argument to prove, that at the times when everybody is paying and receiving, there must be much more of currency—*the material of payment*—wanted for use, than will be required when people are for the most part not generally engaged in paying and receiving. I shall, however, avail myself of certain Parliamentary Returns of the Bank-note circulation in Scotland, which shew the effect of the custom in question in a striking manner. For it appears from these returns, that twice in each year, viz., in May and in November, the bank-note circulation receives a sudden and extensive augmentation, amounting to 15, 20, 25, or even 30 per cent. upon the whole quantity previously in use. Such additional notes, however, being wanted for a short time only, return at the end of some ten days into the bankers' chests almost as suddenly as they issued forth.

The explanation of this remarkable pheno-

menon is, that the chief Scottish Law Terms occur at these times; when by the custom of the country, rents are paid, and most other engagements of the larger kind, as those arising from conveyances, mortgages, annuities, &c. are brought to completion. The whole country is, therefore, during these two short periods of time, in a perfect hurlyburly of paying and receiving; and hence the sudden and *perfectly legitimate* demand for an increased supply of currency at the commencement of every such period, and "when the hurlyburly's done," the equally sudden cessation of such demand.

The great cattle fair, "the Falkirk Tryst," presents a similar scene, upon a smaller scale, but even still more sharply defined; for the bankers bring to the ground *all* the currency which is made use of in completing the very large dealings which there take place; and at the end of the fair they carry it all away with them.*

* "The settling at Falkirk is as peculiar as the dealing. No man brings money, *i. e.* currency, with him to Falkirk. On a portion of the moor adjoining the sheep-ground, and adjoining, also, to long lines of booths, a wooden pent-

The Parliamentary Returns of the Bank-note circulation in Ireland, taken over a series of years, exhibit the curious phenomenon of a maximum in February and a minimum in August or September; the disparity ranging from nine and a half to thirty-two per cent. upon the minimum quantity afloat.

In London, too, the retention of currency, the produce of the taxes accumulated in the

house, about 5 feet square, announces itself by exterior placard to be "The Royal Bank of Scotland;" the British Linen Company, the Commercial Bank, and every other banking company north of Tweed appear there also by similar wooden representatives. The purchasers come to the fair provided with letters of credit, and, stepping into the tabernacle to which they are accredited, bring out in large notes the amount required; these are handed to the vender in an adjoining booth, and are probably within a few minutes at his credit with the issuer, or with one of his rivals; for a Scotchman, dealing with a banker, who is very reasonable in his charges, and who is to be found in every village in the land, always throws on him the responsibility of keeping his money. The bankers in the aggregate carry from the ground the same notes which they brought in the morning; a few scratches of the pen in their books having sufficed to balance all these large transactions."—*Gisborne.*

Bank of England, in readiness to pay the dividends upon the National Debt, produces, as the time of payment approaches, a temporary insufficiency in the supply of currency out of doors; which insufficiency, however, is now met by the expedient of issuing the dividend warrants somewhat before they are due, and using them for a short time, by general consent, as currency; but which before that expedient was adopted, had every quarter, a very sensible effect in raising the value of currency for a short time, just before the sluice was opened and the pent-up currency let out.

That the sum of transactions requiring the intervention of currency, is not a moderately uniform quantity, varying but little, and that but slowly, but that on the contrary, it is from various causes liable to undergo both sudden, considerable, and perchance, unlooked-for changes, and that in consequence thereof, *the demand for currency is not an even demand*, but is one subject to sudden, extensive, and unexpected increase or decrease, appears now to be fully made out.

The next step is to inquire as to the SUPPLY

OF CURRENCY; and whether, unlike other exchangeable commodities, it has the power of adapting itself to the exigencies of a changing demand *without undergoing any decided change in its specific value;* for be it remembered, that the mode in which, as respects commodities in general, a change in the demand operates to produce a corresponding change in the supply, *is, by its affecting the saleable value of such commodities;* increasing such value whenever an increased supply is required, and decreasing such value whenever a decrease in the supply becomes appropriate.

If, therefore, the supply of currency can and will accommodate itself to the sudden and extensive changes to which, as we have seen, the demand is liable, without undergoing any decided change in its specific value, currency must necessarily enjoy some peculiar faculty: one which other commodities do not possess. The question whether currency does or does not possess such peculiar faculty, is implied in the problem as above stated.

Before proceeding further, however, we must understand what we mean by currency. Nor

is its definition in connection with the present purpose difficult; for in regarding the currency, with reference to its sufficiency or insufficiency, at a given time, for effecting the purpose for which alone it has been called into existence, viz., that of rendering easy of accomplishment all the transactions, dealings, or exchanges, which, at such time, men shall desire to bring to completion, we must necessarily include every thing, which by ever officiating as a medium of exchange, really supersedes barter in such case. For every thing which is made so to officiate, be it a piece of coin, a bank-note, a bill of exchange, a draft, a cheque, a dividend warrant, or anything else whatsoever, must help to swell that grand total, the sufficiency or insufficiency of which, for affording due facility to all wonted dealings, is the subject under consideration.

Nor must the economic influence of banking operations, which give a threefold efficiency to the money balances kept in the hands of the bankers by their customers, be left out of the great accompt; for the very good reason, that an extension of banking operations

increases the *efficiency* of the currency, whilst their limitation decreases that efficiency; which is obviously tantamount to increasing or decreasing the *supply* of currency.

The effective currency, therefore, is a heterogeneous mass, compounded of many elements. For the purposes of the present inquiry, it is most convenient to regard these elements as forming two classes, viz., *the legal tender class*, which with us practically consists of the gold coin alone, (for Bank of England notes are at once convertible into gold,) and the *non-legal tender*, or *auxiliary class*; this last class being understood to include, together with the paper substitutes for coin, all other contrivances whatsoever, by which (eschewing barter) the use of coin is economised.

But in respect of *so much of the bank-note issue as just represents the amount of gold in actual store in the strong-rooms of the Bank*, (that is to say, as the law now stands, every note by which the issue exceeds fourteen millions,) it will be most correct for the purposes of this inquiry, to rank such portion of the issue with the coin; inasmuch as the reception of gold

at the Bank, and the issue thereupon of its exact value in notes, is a *virtual* coinage of that gold.

It will be convenient now to consider, first, those influences which control the supply of the legal tender portion of the effective currency, that is, the gold; and secondly, those influences which control the supply of the non-legal tender or auxiliary portion thereof.

AS TO THE SUPPLY OF GOLD.

Inasmuch as uncoined gold is, practically speaking, as useful for currency purposes as coined gold,—seeing that it can either be coined at the Mint free of any expense, or be *virtually* coined at the Bank,—the consideration of the supply of gold coin merges in the larger consideration of the *whole* of the supply of gold that we obtain, in whatever form it may come to us.

The trade in gold being one of the freest of all trades, and the carriage of gold being, from the smallness of its bulk compared to its

value, and from its non-liability to injury, comparatively inexpensive, it naturally follows, that of all commodities, gold is the one over whose motions the economic law of demand and supply has the most immediate and unimpeded influence. Hence, gold has less difficulty than almost any other commodity in making its way from the places where it is least in request, to the places where it is most in request; and of consequence it maintains (*other things equal*) a greater uniformity of value in exchange than is maintained by any other commodity; such uniformity of value having been indeed its greatest recommendation for use as money. The fair inference from this is, that a country which employs gold as its legal tender, will have its supply of legal tender more correctly adapted to its varying demands, than could be the case did it employ any other *single commodity* for that purpose.

But the *relative* excellence of gold for currency purposes, is of less importance to the objects of this inquiry than its *positive* excellence; that is, the degree of excellence that

it can maintain under the particular circumstances in which it is placed by our currency legislation.

The demand for currency being, as aforesaid, subject to sudden and considerable variation, and the only admissible means of accommodating the supply thereto being, *according to the ordinarily received hypothesis*, an importation of gold, whenever the supply requires to be augmented, and an exportation thereof whenever the supply has to be diminished; it would follow, were this hypothesis correct, that there ought sometimes to be a sudden and large importation of gold, and at other times an equally sudden and large exportation.

But the vigour of commercial operation, which such transactions imply, cannot be had without the stimulus of high profit, which again requires a considerable change in the value of gold at home, compared with its value abroad; therefore, a sudden and large importation of gold, necessarily implies a sudden and important advance in the value of gold at home, compared with its value abroad; and in

like manner, a sudden and large exportation of gold necessarily implies a sudden and important decline in its value at home, compared with its value abroad.

If it were the case, that whenever the exigencies of the home demand for currency happened to vary in one direction, the exigencies of the demand abroad were pretty sure to vary in the contrary direction, whereby, the same operation that made good *our* insufficiency, would also opportunely remove our neighbours' superfluity, and *vice versa;* so that the high rate of profit required to insure such operation, would be gathered as much from the fall in the value of gold abroad as from its advance in value at home, then, obviously, would the change in value that was experienced at home be only half of that required to afford the necessary profit upon the transfer of the gold from the one country to the other country.

But it is perhaps more often the case that the very contrary of this really happens, by reason of the strong sympathy which, in respect of their currency-wants, naturally exists between

countries that are in commercial connection with each other. For whenever much trade, requiring much currency, prevails in one country, it is most likely then to prevail in others also, and *vice versa;* and likewise, whenever high confidence prevails in one country, it is most likely then to prevail in others also, and *vice versa;* therefore, whenever our wants (for currency) undergo a change, it is by no means unlikely that just then similar causes will be working out similar effects in other countries, whereby the wants of such other countries will undergo *not an opposite* change, which would be compensatory of ours, but a *similar change,* re-acting upon and aggravating the change we experience, from the unusual keenness of competition that it will subject us to in respect of the disposal of the precious metals; the consequences of which competition upon the value of these metals must be obvious.

But a change in the value of gold, is with us, *a change in the appointed standard measure, both of monetary contracts and of values in exchange;* a change, therefore, necessarily dis-

turbing all money contracts at such time outstanding, and perplexing all exchanges then in progress; a change, too, which, if of much extent, must throw the commercial world into confusion, as in truth it has but too often done.

A purely metallic currency, therefore, (which by writers of great ability has been held to be the type of a perfect currency,) is open, as it seems to me, to this fatal objection, that whilst, in respect of its quantity, it is called upon to adapt itself to a highly variable demand,—the sum of the transactions that require its interventionary aid, being a highly variable sum,—in respect of its specific value, it is imperatively called upon to remain absolutely fixed and unalterable; being, as it is, the appointed standard measure both of monetary contracts and of values in exchange; just as absolute fixedness of length, weight, capacity, and duration, are respectively the essential requisites of other standards. But these two conditions are incompatible, for whilst the last requires absolute fixedness of value, the first requires great

susceptibility of change; sufficient, indeed, to induce the rapid importation of gold, upon a sudden increase of the demand, and its rapid exportation upon a sudden decrease thereof.

I may here pause to observe, that the consideration just adverted to, touches the weak point of all known currency legislation.

A commodity, gold or silver, taken to possess greater equability of value than other commodities, and being convenient in other respects, has been in most countries adopted for use as money, by being made the sole legal tender of the country. But it appears to have escaped legislatorial observation, that unless there could be some special provision hit upon as an antidote, the very act of adoption must subject such commodity to the influence of a large, powerful, and variable demand, to which it was not before subject; viz., to monetary demand; and thereby inevitably jeopardize the very quality (uniformity of value) which most recommended such commodity for such adoption. In short, no currency legislation appears, hitherto, to have had due regard to the fact, that money has two distinct functions to discharge: one, that of a medium of ex-

change, and the other, that of a measure of value; that these functions are to a great extent incompatible, and therefore cannot be discharged correctly by any one substance.

It appears to me a matter of the strongest probability, that (taking our system of credit as it stands,) the mistake which has been fallen into, of thus depending upon one substance for the discharge of two discordant functions, is the root from which all our monetary convulsions have sprung, however much their growth may have been aided and strengthened by the coincident action of other causes of disturbance. At all events, it is not very difficult to show, that a sudden and extensive change in the demand for currency may be brought about quite legitimately by a like change in the sum of transactions; and that it may, by virtually altering the terms of the then subsisting monetary engagements, and temporarily changing the relation between gold and all other commodities, prove, *with or without the coincident action of other causes of disturbance*, a competent cause of speculative excitement, followed by qualm and distrust, and ending in panic.

The errors of legislation are, however, not unfrequently corrected, more or less perfectly, by the springing up of something, independently of the law, to which either the necessity of the case or some other necessity gives birth. Thus, in this case, a powerful corrective of the legislative mistake in question, has grown up, in the introduction and extensive use of bills of exchange, the principle of whose corrective power will be noticed shortly; and so great is this power, that were not its action liable under certain circumstances to be overpowered by causes of still greater force, there would be but little necessity for any further provision.

I am informed by persons of competent knowledge, that gold will not be exported, even to the nearest foreign markets, unless its value at home shall fall one per cent below those markets; and that on the other hand, it will not be imported, unless its value at home shall rise one per cent above those markets; that per centage being only just enough to cover the expense and the loss of interest, together with the necessary profit of the trader upon the transaction.

Therefore, between an influx of gold, and an eflux, *there is a range of two per cent;* within which limit, whether it rise or whether it fall, any alteration in the value of gold is powerless *even to set the adaptative or regulating mechanism of the foreign exchanges in motion;* notwithstanding that such alteration involves, in either case, a corresponding change in the *virtual* terms of all our pecuniary engagements, and a like alteration in the standard unit, by which the values in exchange of all commodities are measured.

The foreign exchanges, therefore, in respect of their suitableness for regulating the supply of currency, are nowise superior to a steam-engine governor, that should be wholly insensible to an increase of speed from 99 strokes in a given time, to 101 strokes; or to a decrease of speed, from 101 strokes to 99: nor a whit superior to a scale-beam, that should move not with 99 lb. in one scale and 101 lb. in the other: or to a clock that would not tell the time, nearer than within one minute in fifty.

The existence of this two-per-cent range,

within which the value of our standard may suffer alteration *uncorrected*, is indeed a strong reason for endeavouring to improve the standard itself; which would be at least much bettered by adopting, instead of gold singly, *an alloy of gold and silver;* inasmuch as the respective fluctuations in value of the two metals would, in most cases, be mutually corrective. For, be it observed, the plan herein to be proposed, or any other plan, for adapting the supply of currency at all times correctly to the demand,—whereby a resort to exportation for getting rid of a superfluity, or to importation for making good a deficiency, shall become unnecessary,—can but protect the standard commodity from those disturbances which originate in *currency causes;* nor can any such plan protect gold from those fluctuations to which it is liable as a mere *ordinary commodity;* and therefore, to which it would have been liable had it never been made legal tender.

However, if the changes in the value of our money can be brought within the compass of those fluctuations alone, to which gold, in the

character of *a mere ordinary commodity is subject*, the worst of the evil will have been got rid of; since the fluctuations we have witnessed heretofore, under the influence of sudden and extreme changes in monetary demand, have, on some occasions, not fallen much short of thirty per cent.

I now return to the main question of this division of the subject, viz., whether or not the supply of the legal-tender portion of the currency—the gold,—unlike other exchangeable commodities, possesses the power of adapting itself to the exigencies of a changing demand, without undergoing any decided change in its value? and I think it will be generally agreed that the answer must be, that it possesses no such power.

Next, as to the supply of the non-legal tender, or auxiliary portion of the currency; which portion must be understood to include all matters and contrivances whatsoever, by which, either the quantity of the currency or its efficiency, is increased.

To avoid unnecessary detail, it will be best to confine our attention chiefly to the more prominent elements of this part of the currency, viz., bills of exchange, and banking operations, including the use, in connection therewith, of bank-notes, drafts, cheques, clearances, &c.

Practically, the chief office of a banker is to economise currency; which he effects by collecting into one large fund, the small stocks of spare currency, which his customers find it necessary to keep at their command. And as the demands for money differ in time,—one man taking out money whilst another is bringing it in,—it is found by experience, that the result of putting many men's stocks together, is, that one-third of the money (or even less), will suffice to answer the occasions of its owners, just as effectually as the whole sum would have done, upon the plan of every man keeping his own stock in his own hands. Thus, every thousand pounds in the hands of a banker, will answer the purpose of three thousand in the hands of independent traders. The effect of banking in economising currency,

is most observable in the case of dealings between men who bank at the same banking-house; and whose cheques in favor of each other will be settled by the bankers merely writing the sums expressed therein, out of the payer's account and into the payee's account; and in so far superseding the use of currency altogether.

The institution of the clearing house, again, has much extended the sphere of this economising process, by enabling the bankers (in effect) so to write off payments, in many cases in which the payer and payee have their accounts at different banking houses; the general effect of the plan of clearances being to place things (approximately), upon the footing on which they would stand, if there were only one bank in the whole country, such bank holding all the accounts which are now held by the separate banks. In such case, the use of currency would be confined to payments in hard cash; for all payments made by cheque, would then be settled, by merely writing the sum out of one account into another.

As banking operations, with their incidents of notes, drafts, cheques, clearances, &c. constitute a large element of the auxiliary currency, I must take their capability of increase, and their liability to decrease, fully into account, in considering the degree of power which the auxiliary portion of the currency possesses, of adapting itself in quantity to the changes in the demand for currency.

Let us first place fully before our 'mind's-eye,' that portion of the great sum of transactions, which consists solely of dealings, that are completed by means of such cheques alone, as are finally discharged, by the simple transfer of the sums they respectively denote, from the accounts of the several drawers of the cheques, to those of the receivers.

An increase in the number or amount of such transactions, would simply require a like increase in the number or amount of the cheques drawn, and the transfers made, in the books of the bankers; whilst a decrease in their number or amount, would simply cause a corresponding decrease of the cheques and transfers. Such cheques and transfers,

would, as respects the transactions in question, constitute the *supply (and the only supply)* of currency needed, for their settlement. To increase or diminish this supply suddenly and extensively, because of transactions having increased or diminished suddenly and extensively, would call for nothing more than a slight increase or decrease in the use of pens, ink, and paper; indeed, the matter hardly admits of being seriously treated as one governed by the economical law of demand and supply; although, scientifically speaking, such it undoubtedly is; and for the purposes of this inquiry, such it must necessarily be regarded.

The supply would obviously adapt itself to every possible variation in the demand, without effort or strain of any kind; and, at the same time, the object of bringing the variable amount of dealings to due settlement, would, by these means, be even better accomplished, (taking ease and convenience into account,) than they could be by the use of coin; to obtain which, we must needs endure all that commercial strain, which any sudden and considerable change in the demand for gold, must inevitably subject us to.

In respect of the other and less simple operations of the bankers, there would be no difficulty, if space permitted, in shewing, that *commonly*, they possess just the same power (unless where the law has thought proper to interfere), of adapting themselves exactly to the legitimate wants of the classes of transactions to which they are applicable;—increasing correspondingly as those wants increase, diminishing correspondingly as those wants diminish,—and this without effort or strain.

But the power of banking operations, *under ordinary circumstances*, to greatly economise the use of coin in the manner described, and the excellent power they have of adapting themselves perfectly to the varying wants of the classes of transactions to which they are applicable, are unfortunately marred by one most serious defect; viz., that of their inability to keep their ground under certain trying circumstances, which although infrequent of occurrence, can scarcely ever be warded off altogether.

Banking operations are UNSTABLE, because, their living spirit being confidence, distrust paralizes them.

The possible effect upon the supply of currency which such distrust may cause, may be judged of by viewing a panic in miniature, *i.e.*, by calling to mind, the by no means imaginary case of a large and *perfectly solvent* country bank, the monetary centre of an extensive and busy district, accidentally falling under suspicion; and in consequence being subjected to a 'run,' so severe as to bring its ordinary operations to a complete stand.—

The manifest consequence would be, even were every customer paid in full, that so much increased efficiency as had been given to the circulation of the district by the operations of the bank, would cease at once; and by its cessation, *a virtual loss* would be for the time, inflicted upon the district, *equal in amount to at least two-thirds of the money withdrawn from the banker's hands to be held individually;* because the efficiency of the money so withdrawn, would, as we have seen, be thereby reduced to one-third part only, of what it had, whilst under the banker's management.

A sudden defalcation in the effective currency, caused in this way, has more than once

thrown a large neighbourhood into the greatest straits.

At the great panic of 1825, as I was then credibly informed, the neighbourhood of Swansea, amongst other places, suffered thus to such an extent that, for a time, families of great opulence found it difficult to command even the small quantity of currency required to meet the daily expenses of their households.

And although the great majority of our bankers have escaped 'runs,' even in times of the most general and wide-spread distrust, yet, the threatening dangers of those times have ever made it a matter of prudence with them, to fortify themselves by "strengthening their reserves;" which means, that they have on these occasions thought it necessary to cease to some extent to operate as bankers, *i. e.*, to desist, to some considerable extent, from lending out the surplus money of their customers. Indeed, in the great run of 1825, Sir William Curtis is said to have procured cash enough to enable him to tie up in paper the balance due to each of his customers; so that he for a time quite abdicated his function

as a banker, and became the mere keeper of a strong-box.

Whatever amount of currency is thus held back by the bankers, in order to "strengthen their reserves," forms obviously a subtraction from the sum of the effective currency; a subtraction, be it remembered, that always takes place most inopportunely; viz., just when from other causes the currency is at its greatest need.

Thus, banking operations, which, so long as moderate confidence prevails, do no doubt render most important assistance, in adapting the sum of the effective currency, to that of the varying requirements of transactions for its interventionary offices, may, and probably will, under the blighting influence of general and deep distrust, not only become unable any longer to assist in maintaining such adaptation, but may, and probably will, become instrumental in rendering the departure therefrom, greater than it would have been had banking operations never existed.

If by any plan of giving security or otherwise, the bankers throughout the country

could be made proof against this blighting influence of distrust, then would one great cause of disturbance in the currency, or at least of aggravation of the disturbances which arise from other causes, be got rid of; and the benefit of the great adaptative power of banking operations be had, without the dangerous liability with which that benefit is now alloyed.

The stability of our banks has no doubt been much increased by the relaxation in the legislative restrictions relative to partnerships. Still, however, much remains to be done.

Bills of exchange (with promissory notes, not payable on demand) form the last portion of the auxiliary currency, the supply of which it is necessary to consider; and its consideration is both important and curious.

The effect which the incessant creation, circulation, and extinction, of bills of exchange, has, in adapting the quantity or supply of the effective currency, to the varying demand, is perhaps more likely to be understood in the provincial manufacturing and commer-

cial districts than it is in London; for in those districts, bills of exchange are very commonly made use of as media of exchange, or currency, being indorsed and paid over from party to party, again and again, during the time they are running; which, as I am informed, is not much the practice in the metropolis.

Bills of exchange are *born of transactions;* and the more transactions of a certain class there are, the more bills will there be; and *vice versa;*—the transactions cause the demand, and the bills constitute the supply, the one keeping exact pace with the other, however greatly the viscissitudes of trade may cause the numbers and amounts of the transactions in question to vary. It has been objected, that bills of exchange cannot be regarded as currency because they are not cash, but merely promises to pay cash. To this it may be answered, that upon the same plea, bank-notes are not currency, because they are likewise but mere promises to pay cash. The question, however, so far as the present inquiry is concerned, is not what bills of exchange *are*, but what they *do*. Do they by their intervention

enable men to accomplish transactions without the use of any other kind of currency? Can a dealer who holds an unquestionably good bill of exchange (his own indorsement furnishing an additional guarantee), *with such bill* purchase goods in the ordinary course of his trade? If he can and does do so, such bill must unquestionably then perform a *true act of currency*, to the supercession, so far, of all other kinds of currency;—an act, too, which will be repeated every time the bill is used in the same way. Indeed, in respect of such of these bills as are brought to settlement at the clearing-house or otherwise *without the use of other currency*, which is probably the case with the great bulk of them, every transfer they undergo, except the final one, implies an act of currency; unless, indeed, a transfer is made, for the purpose of receiving cash in exchange.

Being the offspring of transactions (of a certain and very large class), each transaction of such class bringing forth its bill of exchange, the use of these bills must obviously relieve the other elements of the currency of all

necessity for adapting themselves to the demand, so far as that is affected by the variations in this large class of transactions; a class comprising no inconsiderable fraction of the whole mass of dealings in the country.

But the extensive use of bills of exchange as media of payment, affords an additional and even a still more efficient regulating or adaptative power over the currency,—*a power, too, of important significance, in relation to the practicability of effecting improvement in our currency laws; inasmuch as it is a power which no other existing kind of currency possesses.*

This power has its origin in the twofold nature of these bills, from which they can be either kept in the circulation, *as media of payment*, or withdrawn from the circulation, and held for a time *as interest-bearing investments.*

Hence, they will assume *either character*, according to the convenience of those into whose hands they happen to fall; *i. e.*, whilst passing from hand to hand, amongst those whose immediate object it is, either to make purchases, or to meet previous engagements, the bills will officiate *almost exclusively as aux-*

iliary currency;—but, on reaching the hands of those who do not want to make payments, but who do want to make interest upon spare capital, the bills will be retained for a time, to gather interest as investments.

Bills of exchange, therefore, unlike all other forms of currency, are amphibious:—at one time, passing rapidly from hand to hand as media of payment, they are to all intents and purposes currency;—auxiliary currency that is;—but still they are ever ready, at a moment's notice, to put off that character, and to assume that of productive investments. Or at another time, having been laid aside to gather interest as productive investments, they are equally ready, at a moment's notice, to come forth and resume the character of media of payment. They can, therefore, at any time give relief to an over-full circulation, by retiring from it into the quietude of investment; or replenish a scanty circulation, by rejoining it as active media of payment. Nor, in either case, will their holders need any extraneous prompting to take the course proper to the occasion, as they will be directly incited thereto by their own immediate convenience

or necessities; for of all classes of men, the merchants, manufacturers, bankers, and others, amongst whom bills of exchange principally circulate, are those upon whom incorrectness in the adaptation of the currency to the work it has to accomplish, most immediately presses; whether such incorrectness be on the side of excess, or on that of insufficiency; and whilst, as holders of bills of exchange, these men have each of them the remedy so far in his own hands, it would be as inconceivable as it is contrary to the fact, that they should not use it, whenever the hour of necessity comes.

In short, there is no reason to doubt, that, on the one hand, whenever "money becomes a drug," bills of exchange are largely laid aside to gather interest as investments, to the great relief of the circulation (and of the community), then suffering from the evils of monetary repletion; nor, on the other hand, that whenever "money becomes tight," the hoarded bills are largely brought forth, and used as auxiliary money, to the great relief of the circulation (and of the community), then suffering from the evils of monetary insufficiency.

I have been informed, that the Scotch bankers, by mutual agreement, always make use of Exchequer bills, in discharging the balances of their claims upon each other. Exchequer bills, therefore, by adoption, constitute *for such purpose* their currency.

Coin, bank-notes, and other non-interest-bearing money, are wholly destitute of the regulating or adaptative power, (which bills of exchange possess, in virtue of their two-fold nature,) because their utter barrenness unfits them for being laid aside and retained in store. Every one who keeps coin or bank-notes by him, must submit to a loss of interest; and must incur also some risk of robbery, which bills, that require indorsement to make them payable, are free from; therefore no wise man will, under ordinary circumstances, keep much coin or other kind of non-interest-bearing money by him, if he can avoid it.

In case, therefore, of an *over-full* circulation, there is no help at hand, so far as coin is concerned; for there is no one to withdraw and lay aside, for a time, an adequate portion of coin, whereby to cure the repletion. Nor, so far

as coin is concerned, is there likely to be help at hand, in case of a scanty circulation; for if few or none were found to withdraw coin and lay it up in store, when the circulation was over-full, where are the stores to be found from which to replenish the circulation in the hour of its insufficiency?

No doubt, individuals desiring to get rid of their coin and notes in times of repletion, may *lay them out in the purchase of interest-bearing investments;* but this would merely cause the said coin and notes to be transferred from one person to another; a proceeding which would obviously be without effect in relieving an over-full circulation; for that requires the complete *withdrawal of the superfluous portion of the currency,*—not the mere shifting of the burden from one back to another.

In times of insufficiency, on the other hand, there is no doubt but that holders of ordinary investments might sell them, and thereby procure their value in currency if they wanted it; but in so doing, they would merely cause that much currency to change hands, a proceeding that would obviously do nothing towards re-

plenishing a scanty circulation; for that would require *the procuring of an additional supply*, and not a mere taking from Peter and handing to Paul.

It would be a difficult task to estimate the extent to which the circulation, is, (by the *united* action of the two regulating powers possessed by bills of exchange,) *augmented*, whenever increasing transactions require increasing means of accomplishment, or *diminished* whenever a decrease of transactions allows of the decrease of those means. The smooth working of this regulating mechanism, one of the characteristic excellencies of a self-acting principle, hides its movements from observation.

Considering, however, the vast amount of bills constantly afloat, (which probably are ten, fifteen, or twenty times the amount of the gold coin in circulation,) their conformity in their origin with the necessities of transactions for media of payment, and the perfect ease with which they are thrown into the circulation, or withdrawn from it, as its exigencies require, it seems not unreasonable to

conclude, that there is often silently at work, an extensive and wholesome regulation of the quantity of the effective currency, *at times when there may be no regulation whatever going on by means of the importation or exportation of gold;*—and, that in *extent of operation,* this regulating power of bills of exchange, may, and not improbably does, much exceed the greatest which it is physically possible that gold could afford.

It may be thought, that, even admitting all this, still, the regulating power of bills of exchange cannot be exercised, except in *subordination* to that of gold. It seems to me, however, that the subordination is really to the *state of credit;* and that it has no necessary connection with the quantity of gold which we may have at command; excepting so far *as credit may be affected thereby.* Even if we should choose to hold *no* part whatever of our property in the shape of coined gold, yet, so long as credit remained unshaken, the regulating action of bills of exchange would, for aught I can see, go on just as before. To hold a higher proportion than usual of our property

in the form of gold, *and therefore a lower proportion in other forms*, cannot, excepting under very rare circumstances, make us one whit the richer or the more trustworthy; but on the contrary, must (other things equal), make us poorer, and so far less trustworthy; because gold is unproductive, and is less safe to hold than other kinds of property that are to be had. The continental nations, who are decidedly below us in wealth, are well known to keep a much larger proportion of their property in the form of hard coin than we do. In short, a high *proportionate* amount of coin, is rather the concomitant of low civilisation and poverty, than that of high civilisation and wealth. To strive to keep a large stock of gold in the country, is therefore to seek to bring about retrogradation instead of progress. A worthier course, will be, to endeavour to render free from confessed but ill-understood imperfections, the far more potent and refined instruments of exchange, which a higher civilisation and greater trustworthiness amongst us, both individual and governmental, have placed in our hands.

The singular adaptative power which bills of exchange thus possess:—1st, in virtue of their being the certain offspring of a large class of transactions: 2ndly, in virtue of their nature of *investible-currency*;—taken in connection with the vast amount of these bills at all times afloat, would appear to supply almost unbounded means of regulating the currency. Further provision, therefore, might be deemed superfluous, were the operation of the power in question *certain under all circumstances*. But herein, unfortunately, we find two capital defects. The first is precisely the same defect by which the adaptative power of banking operations, is, in trying times, rendered worse than nugatory; viz., the defect of instability, under the malign influence of deep and general distrust. For, in common with all auxiliary money, the acceptation of which, in discharge of claims, is merely optional, bills of exchange entirely depend for their power of officiating as currency, upon the degree of estimation in which they may happen to be held; therefore, whenever they become blighted by suspicion, they necessarily lose their virtue as currency;

and thus, at its utmost need, the circulation is in a great measure deprived of their help. Better had it been, when such evil days do fall upon us, that these useful auxiliaries had never been known, than that they should thus fail us after we have come so much to depend upon their assistance.

The second defect is one of much less moment, but it will be useful to examine its nature carefully, in order to help us to a correct understanding of what the qualities are, that should be sought in remedial measures. The defect in question concerns that two-fold character borne by bills of exchange, which fits them, either for *active life* as currency, or for *passive life*, as interest-gathering investments.

This two-fold character can only be sustained *in perfection*, when the rate of interest which custom allots to these bills, happens to coincide with the market rate;—that is, with the rate which at such time is readily procurable, with no more risk or inconvenience, than the simple retention of the bills is attended with. For it is under these circum-

stances alone, that the minds of the holders of the bills, will be placed in that perfectly balanced state, in which they will be equally susceptible to change in *either direction* in the demand for currency.

To make this point (which is one of great importance) more clear, let us first suppose, that at a time, when the currency happens to want replenishment, the rate of interest borne by bills of exchange sensibly *exceeds* the market rate. In such case, those holders of bills, who had at such time payments to make, would be tempted *rather to dispose of other investments* in order to raise the means, than to employ the bills as currency; to the replenishment (so far as they went) of the scanty circulation. This reluctance of their holders to use the bills themselves as currency, arising from their *more* than average productiveness as investments, at such time, would, therefore, tend to debar the currency from their aid, in the time of its pressing need.

Let us next suppose, that at another time, when the currency wants relief from over-

fulness, the rate of interest borne by the bills, is sensibly *below* the market rate. In such case, those holders of the bills, who at such time had no payments to make, but who simply desired to get what interest they could, might be tempted, rather to employ these bills in the purchase of investments, than to lay the bills themselves aside as such; which latter course alone could afford relief to the over-full circulation. This reluctance of their holders to lay aside the bills themselves as investments at such time, arising from their *less* than average productiveness, would, therefore, tend to retain them in the circulation, although that were then suffering from over-fulness.

From these considerations, it evidently follows, that the more closely the rate of interest yielded by bills of exchange, (*being received in the ordinary course of dealing, and held for a time,*) shall agree with the rate procurable in the open market, the greater will be the aptitude of the bills for taking the particular character, active or passive, which the exigencies of the circulation may come to require.

In other words, the more effectually would the bills in such case discharge their very important portion of the duty, of increasing or diminishing the supply of currency, in accordance with the variations of the demand.

In proof of the truth of the proposition herein put forth, that the power of bills of exchange to discharge the function of currency, greatly depends, at a given time, upon there being at such time a practical agreement between the rate of interest they bear and the rate which is obtainable in the market, I may advert to the fact, that the money market has ere now been much relieved in times of pressure, by an advance in the rate of interest borne by the outstanding Exchequer bills; such advance having been granted by the Chancellor of the Exchequer *for the express purpose of affording such relief.* The *modus operandi* being, that inasmuch as the productiveness of the bills would, by such advance, be brought up to the level of the market, (which had risen above their former rate of interest) their holders would become enabled to pay them away as currency, (although not

legal tender,) because the improvement in their productiveness, would have removed the previous disadvantage to the payees, in taking the bills in lieu of money. And by thus restoring the Exchequer bills to the currency, so far as they commonly are or conveniently can be made use of as media of payment, great relief would no doubt be afforded to the circulation in a time of insufficiency.

In practice, the rate of interest customary amongst traders, in respect of the bills of exchange received and paid away by them in the ordinary course of their dealings, does not and cannot vary as the market rate varies; because of the frequent changes of agreement, and the inordinate complexity of accompts, which such incessant variations must entail.

Bills of exchange, therefore, in respect of their power of aiding in the adaptation of the supply of currency to the variations of the demand, have the two DEFECTS aforesaid; viz., 1st, the defect of bcing rendered by general distrust, to a large extent unacceptable; and therefore so far incapable of discharging the function of auxiliary currency.—And 2ndly,

the defect of not always agreeing, in respect of their productiveness, with the rate procurable in the market upon equally eligible securities.

Were it possible (which it is not) to *cure* bills of exchange of these two defects, it might, in such case, not improbably be found, that any further provision for securing the correct adaptation of the currency to the work it has to do, was unnecessary; from the object being, by such means, practically attained. If this be a reasonable expectation, it follows, that the great purpose in question *would be attainable, were it possible to devise and bring into use, in sufficient amount, a class of securities that should possess the useful properties of bills of exchange, but that should be free from the defects by which those properties are ever liable to be obscured, and rendered unavailing.*

The means of adaptation I am about to propose, have been chosen in accordance with this view of the subject; as will shortly appear.

The auxiliary portion of the currency, consisting, for the most part, of bills of exchange and banking facilities, (and in amount ex-

ceeding by many times the coin, or legal tender portion thereof,) has a tendency under circumstances of unusually high confidence,—engendered, perchance, by a succession of plentiful harvests,—to extend its operations to numerous dealings that at other times employ coin. This tendency, which in itself is harmless, and even good, being productive of an economy of coin, appears (in consequence, as I think, of the defective state of our currency legislation), to be really productive of highly injurious consequences. For by thus throwing coin out of use, to some not inconsiderable extent, it necessarily *lowers the value of coin (gold)* in exchange; and this cheapening of gold, which necessarily lightens the burden of all monetary engagements, and *apparently* enhances the value of all saleable property, produces (as will be more fully explained in another part of this inquiry) a delusive appearance of prosperity, dangerous at all times, as engendering those "high conceits," which open our hearts to the wiles of speculative excitement; but doubly dangerous, when, as in the case in question, the *real* prosperity of

the time, is of itself, enough and more than enough, to task to its utmost the prudence and steadiness of the commercial mind.

Were our currency legislation to become what it might be made, *one* such transition as this would still have to be gone through; but the pendulum having made one swing, would be caught up and for ever fixed in its then position; so that its oscillations being at an end, we should for the future be at rest; instead of being exposed, as we now are, to transition after transition; the evils of an oscillation in one direction being mischievously preparatory to the evils of another in the contrary direction; and so on without end.

Further, the one single transition *being foreseen*, might no doubt be alleviated by some special provision suited to the occasion.

Calling to mind that our effective currency, is a compound mass, the elements of which are, from the nature of the case, answerable, *both jointly and severally*, to the demand, it is obvious, that in case of either element failing to discharge its due part in adapting the supply to the demand, the consequence will

be, that an undue strain must be thrown upon the other elements.

Changes in confidence or credit, which, as we have seen, operate strongly upon the auxiliaries, causing them, in times of high confidence, to take the place of coin *unwontedly*, and on the other hand, depriving them, in times of general and deep distrust, of much of their power of officiating as currency, can have no influence whatever upon the power of the *legal tender portion of the currency*, to continue to officiate as such; for the value of coin is intrinsic, and its acceptance in satisfaction of a demand is not even a matter of option.

Therefore, an undue increase of confidence, which has the effect, for a time, of unwontedly extending the use of the auxiliary currency, and thereby of pushing coin out of use, must tend to over-stimulate or *strain* the exportation of coin, in order to effect the disposal of that portion which is thus rendered superfluous. Whilst, on the other hand, an undue lowering of confidence, which has the effect of temporarily restricting the use of the auxiliaries within narrower bounds than usual, must tend

to over-stimulate or *strain* the importation of gold, to make good the defalcation.

Respecting the probable or possible amount of the excess, of which, in times of extreme confidence, the currency may require to be relieved, by the exportation of gold, I am not in possession of any data upon which to found an estimate; but that it is much more considerable than can be got rid of in time to prevent mischief, seems abundantly proved by the records of the speculative mania of such years as 1824, 1845, and 1846; in which the plethora reached such a head, that no scheme, however extravagant, seemed absurd enough to deter men from putting down their money to support it.

Respecting the probable or possible amount of the defalcation, which, in times of deep and general distrust, may have to be made good (as far as it is possible so to do) by the importation of gold, I am equally without data upon which to found an estimate: but I have to offer the following considerations, as the best means I am acquainted with, of placing the probabilities and possibilities of the case before the mind.

Authorities differ greatly as to the proportion which the legal tender element of the currency bears to the auxiliary portion; perhaps, to place it at one-sixth part of the whole, (making the auxiliary portion five-sixths) may be quite as high an estimate as most writers would concur in.

Now, taking the normal state of correct adaptation as a starting point, and bearing in mind that the power of the large non-legal-tender or auxiliary portion of the currency to officiate as such, depends altogether upon the degree of estimation in which the notes, bills, and banking facilities that compose it are held, let us suppose, in the first instance, that there should come a time of high confidence, when the tendency is for bank-notes of all kinds, bills of exchange, drafts, cheques, &c., to pass from hand to hand, with little or no hesitation, and for the currency-economising operations of the bankers to be pushed to an extreme. It would follow, that as regards all but very small transactions, the use of specie would for the most part be superseded, and more especially so, in respect of the transac-

tions between this country and places abroad, (the foreign trade), wherein we do know, that by reason of the exports paying for the imports—through the instrumentality of bills of exchange,—the intervention of specie is, in times of unshaken confidence, for the most part dispensed with.

Suppose the increased confidence, operating in this way, to have augmented by one-tenth part only, the power of the auxiliary paper, &c. to officiate as currency, (transactions remaining unchanged,) such augmentation would set at liberty and call for the immediate *exportation of one-half of the gold coin then in use.*

In the second instance, let us suppose, (the normal condition of the currency having been recovered), that a time of distrust should come, which should lessen, by one-tenth part only, the power of the auxiliary paper, &c. to officiate as currency, (transactions remaining unchanged), such diminution would call for *the immediate importation of a quantity of gold equal to one-half of the quantity in use.*

The possible effect of an unfavourable change in confidence upon the demand for coin, may

be strongly illustrated by a reference to the wholesale produce and security markets of London and Liverpool, no doubt the largest markets of the kind in the world.

The proportion of legal tender which actually changes hands in the completion of the transactions effected in these markets, is probably not one pound in a thousand of the value of the transactions effected. If this be true, it follows, that at least $99\frac{9}{10}$ per cent of the payments in these markets, must be made, by the use of something which is not coin, (and which, therefore, falling under the denomination of auxiliary, or non-legal-tender currency, is open to the blighting influence of distrust), leaving one-tenth per cent only, of the said payments, to be made by the use of coin. Assuming these proportions to be correct, the disuse of only *one per cent* of the auxiliary currency thus employed (the amount of transactions remaining unchanged) would call for a *tenfold increase of the legal tender money employed in those markets,*—the disuse of ten per cent of the auxiliary money would necessitate the employment of a *hundred-fold* the amount of legal tender used before,—and so on.

To destroy credit in these markets, would therefore be, in effect, to deprive the dealers of the use of money, and to drive them upon barter, unless coin could be procured in place of the defunct auxiliary currency; which would seem a physical impossibility, for the amount of auxiliary money in use in this country, probably far exceeds that of all the gold coin in the world.

Another striking instance of the effect of distrust, is to be found in the case of the international currency, or that by which the merchants of one country pay the merchants of other countries.

So long as ordinary confidence prevails, the use of specie is for the most part unnecessary; the exports paying for the imports through the instrumentality of bills of exchange. But when confidence becomes impaired, and the merchants at home and abroad become mutually distrustful, a more or less extensive recurrence to the use of specie will become unavoidable. And should the distrust, as in 1847, run to an extreme, and bills of exchange lose their efficacy to a large extent, *a large*

absorption of specie by the foreign trade will, as then, become inevitable; gold being shipped in England for making purchases abroad, and being also shipped abroad for making purchases in England; in each case, having to pass days, weeks, or even months, on the water,—shipment following shipment, so as to form a large stock in transitu,—*a sea-borne stock*, which has been subtracted from the currencies of the shipping countries, but which has not yet been added to those of the countries for which it is destined.

The effect upon our currency, of such an absorption of gold by the foreign trade, (as also upon the currencies of other nations,) may be well imagined. It is indeed "the unkindest cut of all;" for the moment of its infliction is ever that at which, (having been by home causes brought into a state of most pressing necessity,) we turn our eyes to the foreign trade for succour in our distress.

SUMMARY OF THE FOREGOING CHAPTERS, CONCERNING THE DEMAND FOR THE MEDIA OF EXCHANGE AND THE SUPPLY.

The foregoing statements and reasonings respecting the demand for currency, on the one hand, and the supply thereof on the other, must, if in the main correct, establish the following propositions, viz :—

1st. That the demand for the acting media of exchange, (currency,) is not a uniform demand; but on the contrary, is one, liable, from a variety of causes—natural, political, and dependent upon custom—to sudden and considerable fluctuation.

2nd. That the supply of the acting media of exchange, is subject to certain potent influences; which influences having no necessary connection with, or dependence upon, the demand, may, and often do, operate adversely thereto; causing the supply to vary *unconformably* to the demand; and thereby destroying, for the time, that correctness of adaptation of the supply to the demand, which, is essential to the preservation of fixedness of value, in the monetary unit, the standard

measure of all monetary contracts, and of all values in exchange. In other words, that between the demand for the media of exchange, (which depends upon the amount of the said media, which the whole of the dealings in the country require for their easy transaction, and which, as already shewn, is subject to much variation), and the supply thereof, (such supply being understood to comprehend, as well as coin, all matters and appliances whatsoever, the intervention of which, in the accomplishment of exchanges is commonly resorted to, or by the employment of which the use of specie is economised,) there is not at all times that equality which is essential to the well-working of the great industrial mechanism, but on the contrary, that there does occur sometimes an injurious disparity between the two;—the sum of the said media becoming at one time *injuriously large*, compared to the wants of transactions, whereby the said media are rendered "a drug upon the market;" and at another time becoming *injuriously small*, whereby they become incapable of affording the amount of facility

required for the transaction of the current business of the time;—*required* that is, for the due accomplishment of those daily and hourly dealings or exchanges, whose uninterrupted course is essential to the production and distribution of the necessaries and conveniences of life. And that whenever the extant quantity of the media of exchange or currency thus becomes excessive, and therefore "a drug upon the market," the said media must necessarily become *cheaper;* whilst, on the other hand, whenever this extant quantity becomes insufficient, and therefore the object of unusual competition, then the said media or currency must necessarily become *dearer,*—and that hence, exactitude of adaptation cannot be departed from, whether on the side of excess or of insufficiency, without disturbing the value of the unit of the currency—the pound sterling. Nor can the value of this unit be disturbed, without changing the terms of all outstanding monetary contracts, and more or less perplexing all exchanges.

3rd. That, even were our acting currency metallic altogether, instead of being only

partly so, yet so long as the demand for currency shall continue to be liable to the sudden and extensive changes which have been adverted to, it would seem that such a regula- of the supply as will prevent the equilibrium from ever being sensibly disturbed, must be beyond the range even of physical possibility.

4th. That, even as respects the *less* violent changes in the demand, the regulation of the supply with reference thereto, cannot be satisfactorily accomplished by means of the foreign exchanges, (*i. e.*, the exportation and importation of gold), because of their want of the necessary sensitiveness for this purpose, (even under the most favourable circumstances,) arising from the expense of moving the gold from country to country, which makes the "foreign exchanges" just as deficient in sensitiveness, as a scale-beam would be, that should discover no difference between a weight of 99 lbs. and one of 101 lbs.

5th. That so long as confidence maintains an even state, being neither unduly exalted nor unduly depressed, the auxiliary or non-legal-tender portion of the effective currency,

(which is by many times the largest portion), possesses and exercises that power of constantly and exactly adapting the supply of the media of exchange to the demand, without effort, strain, disturbance, or delay, (however suddenly and extensively such demand may vary,) in which power, gold, as aforesaid, is found wanting; such power, too, being exercised, by the auxiliary currency, be it observed, not in subordination to the supply of gold, but *in subordination to the state of confidence only*, excepting so far as the greater or lesser abundance of gold in the country may have the effect of increasing or diminishing general confidence.

6th. That this most useful power of adaptation, possessed and exercised by the auxiliary currency, with a success almost perfect so long as the state of ordinary confidence remains unchanged, is liable to almost *certain failure*, if that state be departed from, whether on the side of an exaltation or on that of a depression thereof;—liable, indeed, in case of *a great departure*, to a failure so signal, as to make matters much worse than they would

have been, had the use of auxiliary money been unknown. The possible extent of failure being most strikingly shewn, by a reference to the effects which it is within the power of changes in the state of confidence to bring about, in respect of the currency which is employed in the wholesale produce and security markets, and in respect of that which is employed in the foreign trade.

7th. That in respect of bills of exchange, (viewed as auxiliary currency,) a consideration of the great adaptative power which they commonly exercise over the currency, and which is due, in the first place, to the circumstance of their creation springing from transactions; and in the second place, to their twofold or amphibious character, which enables them, according to the convenience of their holders, either to assume the active shape of currency, or to fall back into the passive state of investment; together with a consideration of the causes of their liability to failure,—first, from either an undue exaltation of confidence, which may carry the use of them to an excess, or an undue depression thereof,

which may inconveniently suppress their use; and secondly, from the rate of interest they bear by custom, so differing from the market rate, as to render their productiveness either too low, in which case they may be driven into circulation at times when the extant quantity of the media of exchange may be already quite abundant enough, and even verging on excess;—or too high, in which case they may be kept out of circulation at times when the extant quantity of the said media may be insufficient to answer the demands of the dealings then requiring to be accomplished: these considerations are highly suggestive of the qualities that have to be kept in view, whilst endeavouring to discover the means, if means there be, that will afford perfect and never-failing adaptation.

The review herein attempted, of the means by which, (so far as the existing monetary arrangements are successful), the supply of the media of exchange is adapted to the demand, would be incomplete, were I to leave unnoticed those extraordinary means, viz., *the discretionary interference of the Executive Government with*

such supply, which have been resorted to upon occasions when the pressure of adverse circumstances has become greater than the ordinary mechanism had strength to bear.

Although these discretionary interferences involve a temporary suspension of the law, and a consequent abandonment for the time of the self-acting and cherished principle of "convertibility," they must nevertheless be regarded as forming a portion of the *materia medica* of the existing system; for they are set forth in the works of some of its ablest champions, as the necessary, proper, and only known means of relieving the said mechanism when it comes to a dead lock, as it did or was near doing in 1825, and again in 1847.

A reluctance, arising from the conciousness of the very questionable propriety of this violent expedient, which in truth, when resorted to, overturns the law, and installs a monetary dictatorship in its place, has probably been the cause of its non-adoption in the earlier stages of commercial derangement, when a stitch in time, if then applied, might have saved the whole nine. It has in no instance

been resorted to for the removal of an *excess* in the currency, although such excess, by exciting the fever of speculation, has ever proved the sure forerunner of insufficiency and panic; nor has it, except in rare instances, been resorted to for the supply of an insufficiency, until the horrors of panic have actually fallen upon the land. I trust that it will appear in the sequel, that the assumed necessity for resorting, *under any circumstances whatsoever*, to an expedient which is so repugnant to the genius of our institutions, can be wholly obviated.

CHAPTER III.

PLAN PROPOSED.

There is little doubt but that several plans may be devised, for securing the correct adaptation of the supply of the media of exchange to the demand, however suddenly and however extensively that demand may either increase or diminish; and, indeed, more than one plan has been suggested in the public papers, which, *if thoroughly well carried out*, would very likely prove effectual. A great objection to these plans, however, is that they require the exercise of a discretionary power, which we should be reluctant to entrust to any man or body of men; as it is not accordant with the spirit of our institutions; and, even under the most favourable circumstances must be an imperfect arrangement; an objection, too, which applies to the existing arrangements.

In the existing system, the discretionary power consists, first, in the amount of control over the currency, which the peculiar privilege

of the Bank of England, really, though not nominally, places in the hands of the Directors, and which alone renders their decision, regarding rates of interest, a matter of public moment;—and secondly, in the occasional discretionary interference of the Executive, which is avowedly the *dernier resort* of the system.

That which we have to seek, in order to bring our monetary affairs into harmony with our other commercial institutions, is a *self-acting* means of regulation; in other words, monetary freedom. At least, if we cannot succeed in getting rid of discretionary interference altogether, let us do all we can to reduce it to a minimum.

As an illustration of the degree of success in regulating the extant quantity of the currency, with a view to keep it ever in a state of practical conformity with the sum of the legitimate wants of the community, which would seem to be quite attainable by means of a well-exercised discretion, *if that could be secured*, I may advert to the times of the Bank Restriction Act; which Act, although

in my mind a very clumsy and unsafe measure, did nevertheless place in the hands of the Bank Directors for the time, a power, by means of which, had they but known its full import, they could, and I doubt not would, have secured to their country a blessing, which, so far as I can tell, no country in the world has yet enjoyed; viz., the possession of a currency, whose *standard of value* (in this case gold), would have been effectually shielded from the disturbing influence of the changes in monetary demand; and whose *quantity* would have been successfully regulated, in accordance with the legitimate wants of the community for the means of effecting those incessant exchanges, without which, neither the production nor the distribution of the necessaries, conveniences, and luxuries of life could be carried on;—a principle of regulation, which has not as yet been even publicly recognized, much less carried out with success.

The effect of that Act, whether so intended or not, was really to give to the Bank Directors the power of issuing and keeping out, just as much or just as little paper money as they might think best.

Assuming, therefore, what I believe to be true, that it was the sincere desire and intention of the Directors to keep the country *properly* supplied with the media of exchange, nothing more was necessary to the accomplishment of that great object, than the discovery of a TEST, by the application of which, from time to time, the directors might ascertain, unerringly, whether their issues were such, as exactly to meet the legitimate wants of the community; neither exceeding nor falling short of the sum of those wants.

Now, the market-price of gold, ascertained day by day, or week by week, as might be necessary, would have supplied such unerring test; because the *value* of gold (in exchange), circumstanced as gold then was, being practically fixed, a change in its *price* would be nothing more than an indirect expression of a change in the value of the bank-note employed in its purchase; for, *cœteris paribus,* whenever the issue of notes should incline to excess, in comparison with the wants of the dealers and others, then, the power of the notes to purchase gold would assuredly decrease; and whenever

the issue should incline to insufficiency, that power would as assuredly increase.

Therefore, as the correct value of the one-pound note, viz., the value at which one-pound notes were primarily issued, was that of a quarter-of-an-ounce of fine gold, (disregarding a difference of a few grains,) the Directors, in order to test the correctness of their total issues, needed only to ascertain, from time to time, whether or not the one-pound note still retained the power of purchasing that weight of pure gold,—neither more nor less. And by the application of such test, they would at once have discovered, whether any, and what, modification of their issues was required, in order to re-adjust the supply to the demand.

Thus, upon the supply becoming, from a change in the demand or other cause, appreciably too copious or too scanty, the Directors, at once apprised of the fact, would have put the corrective power into immediate operation, and thereby have restored the equilibrium.*

* Although it is a matter of experience, that inconvertible paper money is liable to great depreciation in

Had this plan, or any other plan effectual for the purpose, been hit upon in the early years of the Restriction Act, and adopted by the Bank Directors, and honestly carried out, that Act might perchance have remained unrepealed even to this day; for no one would have troubled himself to compel the Bank to pay its notes in gold, so long as those notes were always found to command, in the shops of the bullion dealers, the precise amount of gold which they purported to represent. Nor would the Bank on ordinary occasions have cared to refuse to pay, (except, perhaps, on the score of trouble,) as they could have replaced the gold at once, and without loss, by the purchase of gold; the Restriction Act securing them from everything like a run. The return to cash payments would, therefore, have been either not called for at all, or if called for,

value from being over-supplied, it seems unlikely that any amount of insufficiency could raise its value above that of coin in any higher degree than might be due to its greater portability; inasmuch as an insufficiency would tend to raise the value of both paper and gold, and thereby to stimulate the importation of gold; the difference, however, if appreciable, would be enough to make such insufficiency fully manifest.

accomplished without strain or effort of any kind, because, depreciation having been prevented, appreciation would have had no place.

Indeed, had things been on this footing, we must have escaped all the speculative excitement that has originated in an over-abundance of currency, and all the distrust and alarm that have been caused by a scarcity of currency: and remembering that the great panic of 1825 was allayed at once by an addition made to the currency, through the issue of a number of one-pound notes that were supposed to have been destroyed, and that the panic of 1847 was allayed by a *mere authorization* for the issue, if needful, of a supply of notes beyond that allowed by law, it seems not unreasonable to conclude, that if no scarcity had ever been experienced, we should never have had panic at all. Nor is it unlikely, that speculative excitement, like distrust and panic, may have its origin almost altogether in a disturbance of the ordinary relations between currency demand and currency supply. Lastly, had these arrangements been so maintained as to keep the quantity of the currency nicely

adjusted to the work it had to perform, we should long ago have ceased to trouble ourselves at all about divers matters which now oftentimes fill our minds with perplexity and alarm. Thus, we should have left the foreign exchanges (that is, the foreign trade in gold,) wholly to the bullion dealers—just as we leave to them the silver trade, to the corn dealers the corn trade, to the cotton dealers the cotton trade, &c., &c.: for the reason that we trouble ourselves about gold particularly, appears to be, simply, that we have made it our legal tender; and so long as our monetary arrangements admit of legal tender becoming scarce at one time, and over abundant at another, our expectation must be kept on the strain. But, if by any means it can be secured, that there shall be always enough of legal tender for the purposes of business, and never too much, then, from that time, having no changes to expect, we shall leave off concerning ourselves about the matter. Further, we should lose all concern as to what quantity of bullion the Bank of England might choose to keep in store, or whether it kept any or none;—we

should no longer enter into discussions about the propriety of the rates of interest the Bank might require, upon loans, long or short;—we should no longer hear of the Bank "putting on the screw," seeing that its rates would be determined (under the plan spoken of), by a rule, all but mechanical in its operation;—the doings of the Bank of France, too, would trouble us but little more than those of the Bank of Pekin;—the money market would long have ceased to be reported either "tight" or "easy;"—we should have long ago heard the last of the Bank, or of the Government, or of anybody else, having "done their utmost to assist and support the commerce of the country," &c. &c., phrases which could no longer have any significance; for however well inclined the authorities may be to assist commerce in times of pressure, it is wholly out of their power to make any immediate addition to the material capital of the country; all they can do, is to facilitate exchange, and thereby to smooth the way for material capital to reach the hands of those who can employ it most advantageously;—and this, a well-

adapted currency will best accomplish without the aid or interference of any man or body of men. In short, were correct adaptation permanently secured, the financial and commercial mind would be enabled to cast off all cares that have their origin in currency disparity; and would be thenceforth enabled to give its undivided attention to the abundance or otherwise of *material capital* of all kinds, and to the most advantageous modes of employing it; which are in truth its legitimate objects.

The evils of the past we may regret but cannot remedy;—but the future is within our power.

The sole objection to the plan, which, under the Restriction Act, the Bank Directors of the time had the power to adopt, had they but possessed the requisite knowledge, is the great amount of discretionary power which that plan implies,—an objection, however, of serious import.

The plan which I have now to propose, may, I think, be pronounced free from such defect, since, as although it undoubtedly implies a

certain amount of administration, yet this admits of being clearly defined and prescribed by law. Upon the whole, it is, in its nature, more nearly *self-acting*, than any other plan that I am acquainted with, which embodies, as this does, the principle of making THE AGGREGATE WANTS OF THE DEALERS AND OTHERS FOR THE MEDIA OF EXCHANGE, THE MEASURE OF THE SUPPLY, AT ALL TIMES AND UNDER ALL CIRCUMSTANCES.

It has been observed, [p. 117,] that bills of exchange do, under certain conditions, possess and exercise, a power of adapting the supply of currency to the wants of the dealers and others, so perfect in its nature, and so ample in its amount, that—*so long as these conditions continue undisturbed*, all other means become unnecessary; that is to say, so long as it shall be the case, 1st, that the state of ordinary, or moderate confidence, remains uninterrupted, so as to prevent the acceptability of these bills as currency, from undergoing any important change, either on the side of increase or of diminution; and, secondly, that the rate of interest which is obtainable in the

market, upon securities of equal eligibility, continues to agree, in effect, with that which custom allots to these bills; so as to secure to these bills, when laid aside as investments, a degree of productiveness, neither greater nor smaller than that of the ordinary run of other securities.

It has been also observed, [p. 111,] that Exchequer bills, have, in times of pressure, arising from insufficiency in the currency, been adapted to currency purposes, by an advance of the rate of interest borne by them, sufficient to raise their productiveness to the level of the advanced rate of the market. The security of these bills being of the highest order of excellence, the breath of distrust cannot blight them, as it does those of inferior stamina: so long, therefore, as no change occurs in the market rate of interest, to disturb the parity between that rate and the rate borne by Exchequer bills, these bills will have all the adaptative power, herein before ascribed to bills of exchange; and without either of the defects which render *them* liable to failure. In order, therefore, to render these

Exchequer bills perfect, as auxiliary currency, (so long as the parity of interest is maintained,) it is only necessary to confer upon them the attribute of legal tender.

Bearing all these considerations in mind, I propose, that Government should prepare and issue, under the authority of Parliament, *an adequate amount of interest-bearing securities, almost identical with Exchequer bills; and that these be made a legal tender for their principal sum, together with their accumulated interest up to the day of tender, according to a Table to be printed upon the face of each bill.*

The mode of issue to be thus:—Once per week, or once per month, as may be found most convenient to the public, a prescribed amount of the bills to be disposed of by tender; *the tenders to be made upon the rate of interest,* and not upon the principal sum; and to be sent in, a few days beforehand, in order to give the department entrusted with the management of the business, time to prepare the bills at the accepted rate of interest.

Parliament would of course determine the total amount of these bills; which should be

regulated, upon the simple principle of having enough to meet the largest possible defalcation in the ordinary media of exchange; for there would be no harm in having more than enough of the bills,—the danger being in the opposite direction. And Parliament would also determine, how the money received for the bills should be disposed of. An obvious plan would be, to hand it over to the Commissioners for the Reduction of the National Debt; to be expended by them in buying-up stock. Or, if at the time of issue, Government were raising a loan, this money might be conveniently treated as such.

The rate of issue should be so ordered, that shortly after the completion of the issue of the amount intended to be kept afloat, the earlier bills would begin to fall due; and in order to provide the means for taking them up, further sales must go on continuously; so many bills (and no more) being sold, week by week, or month by month, as would be required for this purpose.

The bills, thus put afloat, would obviously stand in the place of so much stock; the

process being, indeed, virtually a *coinage* of stock;* with the difference, however, that by reason of stated portions of the whole quantity constantly falling due, the whole coming round in turn, their connection with, and dependence upon, the metallic standard, in respect of their value, would be adequately maintained; at the same time that the constant replacement of the paid-off portion thereof by other bills, *issued by tender upon the rate of interest*, would effect a constant modification of the average rate borne by the whole mass; thereby keeping such average rate in a

* Stock to a given amount, being simply a definite and transferable claim upon the annual revenue of the country, and equivalent, therefore, to a mortgage upon the taxable property of the country, it follows, that the virtual coinage of a given quantity of stock, is a virtual coinage of such portion of the taxable property of the country, as may be required to make good the stockholders' claim;—just as the creation of a bank-note, is to all intents and purposes a coinage of so much of the property of the Bank, as may be required to make good the claim of the holder of the note; for it is the value of that claim, conferred by the possession of the note—and therefore transferable—which qualifies the note for use as currency.

state of approximate conformity with the rate of profit obtainable upon capital employed in other ways. I may, perhaps, here venture to express an opinion, that whenever the money market (or rather the capital market,) shall, by the means herein proposed, or by other effectual means, be wholly relieved from those perturbations which have their origin in currency disparity, the incessant fluctuations in the rate of interest, of which the ever-varying price of stock is the exponent, will be very much moderated, and, indeed, almost wholly prevented;—but more of this hereafter.

The best length of time for the bills to run, must be learnt from experience.—On the one hand, the more frequently the bills became renewable, the more frequently would they become exchangeable for coin; and the more frequently, too, would their degree of productiveness be adjusted to that of the market; and also, the more frequently would the opportunity occur, of detecting any attempt at fraud or forgery.—On the other hand, the less frequently the bills became renewable, the less would be the trouble and expense of their management, to all parties concerned.

Probably the same length of time for which Exchequer bills are drawn would answer the purpose. It would at least seem well to adopt that length in the first instance;—subsequent modification, if found to be necessary, being a matter that Parliament would undoubtedly provide for. If it were found the case, that the introduction of these bills had the effect of preventing, for the most part, those frequent mutations of interest, which are now experienced in the money market, the bills might be drawn at long dates, without ill effect; but if that expectation should be disappointed, it would be necessary to shorten their duration.

In respect of the amounts to be drawn for, utility stands opposed to official convenience. For, to have at least a portion of them drawn for very moderate sums, (perhaps as low as twenty pounds each,) would best subserve the purpose in view; inasmuch as it would lead to their general distribution throughout the country; in which case, the process of adaptation, whenever a change in the demand required it, would go on in all places at once.

Further, the facility which the bills would afford, for investing moderate savings without inconveniently locking them up, would no doubt tend much to encourage habits of economy. But, on the other hand, greater trouble of management would be incurred, and more vigilance would be requisite against fraud and forgery; though the small extent to which five-pound bank-notes are now forged in England, or even one-pound-notes in Scotland, shews, that under tolerably good management, little need be apprehended on that score.

Upon the whole, however, it might be best not to go below fifty pounds, or even one hundred pounds, in the first instance; leaving the issue of smaller bills for future consideration.

I may be allowed to point out, as no small recommendation of this plan,

1st. That its introduction can be gradual; as a few of the bills may be put out, in the first instance, to afford an opportunity of carefully observing their effect, and of seeing how far they are acceptable to the public, before issuing a large amount.

2ndly. That it is no part of the plan, to interfere by enactment with any of the arrangements now in existence.

The plan, therefore, admits of being tried without risk, and without even temporary disturbance of any kind.

The bills, proposed to be created, would possess all the adaptative power which I have ascribed to bills of exchange; at the same time that they would be quite free from those grave defects, by which that unspeakably beneficial influence exercised over the currency by bills of exchange, (*so long as the ordinary circumstances of confidence and credit remain undisturbed,*) is liable to be reversed, under either a large increase or a large diminution of confidence and credit. For being legal tender, receivable for taxes, secured upon the public revenue, and carrying their daily productiveness about them, these bills could never become otherwise than highly acceptable; while from having about the same interest as other first-class investments, there could never be any general motive for either pressing them upon the circulation when their

help, as auxiliary currency, was not required, or, for withholding them, when their aid had become really necessary.

Every holder of these bills, would no doubt be guided by his own convenience, as to how long or how short a time he should continue to hold them. An increase in buying and selling, requiring an increase in the circulating medium, would of course affect the holders of these bills in common with their neighbours, and thereby make it convenient to them to employ the bills as currency, somewhat *more freely* than before;—or they, whose dealings might not increase, would, no doubt, be enabled to lend the bills, upon somewhat improved terms, to others who might require such assistance. In either case, the effect would be to render that timely assistance to the circulation, without which, the increased amount of dealings could not be transacted with due facility.

A decrease in buying and selling, on the other hand, rendering a decrease in the circulating medium appropriate, and, as before, affecting the holders of these bills in common

with their neighbours, would induce them to employ the bills as currency, somewhat *less* freely than before: men whose means did not allow of their keeping the bills, passing them on until they reached the hands of those who had both the ability and the desire to retain them. Thus the bills would be extensively laid aside to gather interest; and by that means the currency would be relieved of all superfluity.

Or, to refer the operation to more general principles.—An appreciable superabundance in the circulation, should such occur, must of course begin to tell upon prices, those of investments included, causing prices to advance; and as the proposed bills, in their character of investments, would naturally partake of such advance, becoming thereby more valuable to hold as investments than to pay away as money, the certain consequence would be, that a sufficient number of them would go out of use as currency, to relieve the circulation of the superfluity. Whilst, on the other hand, an appreciable insufficiency in the circulation, should such occur, must tell upon

prices in the opposite direction, causing them to decline; and as the proposed bills, in their character of investments, would, by partaking of such decline, become *less* valuable to hold as investments than to pay away as money, the certain consequence would be, that many of them would be speedily brought into circulation; thus making good the deficiency in the currency.

Thus, by the adoption of these bills, a new and peculiar element would take its place in the currency; an element uniting two independent characters, for it would serve both as money and as investment, and each of the most secure kind.

This element might properly be named the reserve of the currency, for such in truth it would become; since its holders would always have the option, either to *reserve* their portion as interest-gathering investments, or to recruit the circulation, by paying such portion away (with the accumulated interest), as money. The introduction of such element would, therefore, place in the hands, or at the command, of the dealers and others, a reserve,

the possession of which, would enable them at all times to adapt the currency to their own wants; for the bills composing it, would be convertible, either into cash or into investment, as might best suit their owners' convenience, *by the mere turning of the key of the strong-box,* and therefore without any of the delay, trouble, risk, or expense, of purchasing to invest, or of selling to raise money. Were the proposed bills widely distributed, the effect would be, that portions of the reserve would be held in readiness at all points; and the strong-boxes of the men of spare capital, would unitedly become the grand CURRENCY RESERVOIR;—always ready to absorb any superfluity, however great, or to make good any defalcation, however extensive; in other words, always ready to square the supply to the demand, however suddenly and however extensively the demand might either increase or diminish; and to whatever extent the other elements of the currency might become either unusually abundant, or unusually scarce.

They who hold the opinion, that our circulating medium, mixed as it is, ought to con-

form in its quantity to that which we should have in use if it were not mixed, but entirely metallic, will doubtless regard the stock of bullion in the world, as the natural, proper, and only reserve of the currency; deeming, therefore, that whenever our wants may increase, they ought to be supplied, solely, by means of importation and coinage; and that whenever they diminish, the surplus currency ought to be removed, by the exportation or melting down of the redundant coin.

This is in reality the principle on which our most recent currency legislation is based; nor can I better state the grounds upon which I deem that legislation to be susceptible of great improvement, than by comparing or contrasting its metallic reserve, with the investible-currency reserve which I have proposed; observing, however, that as I do not ask for any interference with the metallic reserve, all the advantage which my proposition may obtain will be additional, and therefore so much clear gain.

1st. As to the metallic reserve.—

A recurrence to such reserve, (or reservoir,

if I may so term it),—whether at a time of redundancy, to take off a pernicious excess, or at a time of insufficiency, to make good an injurious defalcation,—cannot (as here shewn) be had, unless upon the *inadmissible condition* of a considerable change in the value of the whole of the circulating medium; carrying with it a virtual change in the terms of all money contracts then outstanding, including as one item, the National Debt itself. For most assuredly, neither an exportation nor an importation of gold will ever take place, unless its price abroad shall become different from its price at home; and sufficiently so, both to cover the expense of transmission and to yield a profit to the trader. Moreover, as I have endeavoured to shew, it is highly probable, that just at the time when we have occasion thus to recur to the general stock of bullion for assistance, other countries will then also have occasion to resort to it for assistance *of the very same kind*, so that whatever relief we may then obtain, must be got by dint of our outbidding them. This must of course enhance the disturbance of the value of

our currency, and thus make the confusion at home worse confounded; besides inflicting a most grievous injury upon the nations whom we have thus worsted in the competition. Further, it is a most serious objection to the use of gold, or of any other metal, as a currency reserve, that it is wholly non-productive; so that whoever retains it in his possession, either in the form of coin or of bullion, holds a mere barren stock, incapable of being applied to any other purpose, except by putting upon it such an expense of manufacture, as must place it quite out of reach for currency purposes.

Upon the whole, it would seem to be now sufficiently clear, that coin and bullion are *not freely accessible*, and therefore, are not an eligible reserve for the currency; for that, whether called upon to afford the large replenishment required in times of money dearth, or the large absorption which is necessary in times of considerable excess, they will not move thereunto in the least, unless constrained by the force of an inadmissible change in the value of the whole circulating medium;—

inadmissible, because quite inconsistent with the correct discharge, by the currency, of its unspeakably important function, of a standard of money contracts, and a measure of value in exchange.*

2nd. As to the non-metallic or investible-currency reserve.—

Were the proposed investible-currency to be placed largely in the hands of the community, the effect, as I have remarked, would be,

* While this holds good, however, as a general rule, a somewhat ludicrous exception is mentioned by Mungo Park, the African traveller; who states, that the natives of the interior of Africa, employ as money, certain small ornamental shells called cowries, which really do possess the virtue in question.

Mr. Park says, that the wealthy native merchants, when, from the flatness of trade, they have no immediate use for their shells as money, hang them upon their wives as ornaments, by hundreds, thousands, or even tens of thousands; obtaining thereby, for a time, that measure of honour and dignity, which, in the eyes of their unsophisticated neighbours, is the just meed of so much wealth.

But when, from the revival of trade, the shells become wanted again as currency, the merchants are fain to forego this honour and dignity, in favour of the even more attractive profits of trading.

Laughable as this mode of turning their spare currency

that the vast field of productive investment, would become thenceforward a grand currency reservoir; a reservoir capable of receiving, in times of redundancy, any amount of overflow, that, for the due relief of the currency, ought then to pass away; and equally capable of supplying, in times of insufficiency, any amount, however large, that might be wanted for its replenishment; and however extensive the out-flow, or in-flow, required, might be, *not more than a barely appreciable amount of force could ever be needed, either to set the current in motion, or to determine its volume.* In plain English, should the dealings of the country, on the one hand, ever so fall off, as to suddenly set at liberty and render superfluous, some five, ten, or even twenty, millions'-worth of

to advantage, appears to us, it yet embodies a principle (accidentally hit upon) that, with all our wisdom, we have hitherto failed to recognise; although, like the renowned M. Jourdain, who found, much to his surprise, that he had been speaking prose all his life without knowing it, we have, by our mode of using bills of exchange sometimes as currency and sometimes as interest-gathering securities, really, though unknowingly, long acted upon this principle to a very large extent.

currency, the holders of the proposed securities would, without reluctance—because without disadvantage—lock them up to such extent, to gather interest; since they would answer that purpose, just as effectually as other securities of equal validity. Or, on the other hand, should the dealings ever increase in such manner as to require an immediate augmentation of the currency, by five, ten, or even twenty, millions, the holders of the said securities, would, in such case, without reluctance—because without disadvantage—take them out of their strong-boxes to such extent, and employ them as currency; either by making their own payments therewith, or by lending them to others, who might at such time require the use of currency, and offer proper security for its repayment in due course.

This comparison of the two kinds of currency reserve, leads us again to the result, that on the one side, viz., as respects the metallic reserve, the absolute condition-precedent to a recurrence thereto, whether for the absorption of a superfluity, or for the supply of an

insufficiency, is *an inadmissible change in the value of the whole of the circulating medium;* implying, of course, an alteration in the value of its standard unit, the pound sterling,—a change sure at once to bring upon us, either the evils of delirious speculation, or those of distrust and panic.

Whilst as respects the proposed reserve of investible-currency, the largest possible recurrence thereto, whether it be for the purpose of relieving the currency of a superfluity, or for that of supplying an insufficiency, will be answered at once, and to the full extent, however large the demand may be; the only condition-precedent being, a change of value *barely appreciable.* Experience, too, has shown, that the strain, without which, in times of unusual monetary pressure, a due amount of relief cannot be got from the metallic reserve, does, under certain circumstances, become quite unendurable. Thus we are absolutely driven to other reserves, although forbidden so to do by express enactment; necessity in this case, as in others, owning no law, all that stands in its way, is at such time

summarily thrust aside by the strong arm of the Executive.—But were the proposed investible-currency reserve established, or some other reserve equally effectual, all necessity for a recurrence to this objectional expedient, would be at an end. Even in times of much less monetary pressure, when the *dernier resort* of an appeal to the Executive is not had recourse to, we have the anomaly of an anxious public eye being fixed upon the proceedings of the Bank of England, and of the public papers deeming it necessary to advise, and even to remonstrate seriously, thereupon. But surely, under the plan herein proposed, the Bank of England might be left to follow its own interests in the best way it could; the public needing no more to watch, or to remonstrate, in the case of the Bank, than in that of any other trading body; for under such a plan, it would be nearly as much out of the power of the Bank, or of any other corporation, to interfere with the regulation of the currency, as it is to govern the atmospheric air. The supply of currency would, in such cases, be placed on a self-

acting principle, and would therefore be adjusted to men's wants, by the instincts of self-interest, acting upon the great body of traders and others throughout the whole country; a mechanism requiring no aid, and quite too powerful to be disturbed in its movements, by anything short of intermeddling legislation.

An objection, however, has been taken to all plans, of which the object, however set forth, is resolvable into the formation of an ample currency-reserve; viz., that if carried out, they must, by increasing the abundance of money, lower prices; and that permanently.

The answer to this objection may be gathered from the considerations already advanced. But a specific objection of so much importance, may nevertheless, demand a special examination.

There can be no doubt that any *uncalled-for change* of the extant quantity of the currency, whether it be an increase or a decrease, must alter prices; the first raising prices improperly, and the last lowering them im-

properly;—provided *always, that the currency spoken of, is one which has not the power of immediately righting itself, by throwing off the excess when unduly increased, and by attracting the needful amount of replenishment when unduly diminished; and that without the stimulus, in either case, of any important change in its own value.*

Now, an inconvertible, non-interest-bearing paper currency, (although as already explained, it does admit of being correctly adjusted to its work, by well-informed and honest administrators,) has no such power of *righting itself* when in a state of superabundance; for there are no means for getting rid of the excess; since it can neither be exchanged for the metal which it purports to represent, nor be made to subserve any other useful purpose, apart from the currency. Therefore, if there ever were to be an excess of inconvertible and non-interest-bearing paper money, an advance of prices would be the sure consequence.

Even a metallic currency, has, as I have pointed out, but an imperfect power of righting itself, owing to the expense and loss of time

in the removal of coin or bullion, from one country to another; and to the circumstance, that the causes most strongly affecting the demand for coin and bullion, are found to pervade different countries at the same time.

But a mixed currency, (of undoubted validity), of which a sufficient portion might, without delay, expense, or loss of any kind, be put to some other use when not wanted as currency, would fully possess, and would no doubt exert this power of righting itself, so that, fortified by a reserve so readily available, whether positively, or negatively, the currency, practically speaking, could never become either excessive or insufficient; and therefore could never have more than a barely appreciable, or microscopic effect, upon prices.

The error of the objectors, lies, in their not having distinguished between the effects of an abundance of ordinary *non-interest-bearing money*, and those of an abundance of the proposed *interest-bearing money*. Ordinary money being utterly barren, those, into whose hands it comes, most commonly exchange it, as

speedily as they can, for something which is productive; and thus, if the barren money should ever superabound, the competition amongst its holders must soon tell upon prices.

But the proposed money of reserve, would not be barren; and he who received it, would be benefited, every day he retained it. What, therefore, could drive him to the investment market as a bidder? The bills in his hands, the possession of which, if anything, must be the moving power thereto, would be *themselves* productive investments,—the very things he would go to buy, if he went at all. And surely, the circumstance, that as well as being productive, his property would also be in a form enabling him at his pleasure to use it as money, would furnish anything but a motive to him to get rid of it. In short, it is a manifest absurdity, to suppose that investments, which, though of different kinds, *are exactly equal in productiveness*, can ever press upon each other in such a manner as to raise or to depress their respective value.

Nor is there any reason why the creation

of the proposed bills should operate in disturbing prices, in the produce markets; or, indeed, in any other markets. Greater facility would no doubt be given to exchanges of all kinds, whether of investment for produce, of produce for investment, or of any one thing for any other, by such an improvement in the currency.—But such increased facility would no more prompt the holders of the proposed bills, to exchange them for produce, than it would prompt the holders of produce, to exchange that for the bills.

To afford increased facilities to those who desire to exchange property of one kind, for property of another kind, is a good and useful purpose; it is a step in the progress of free-trade: for free-trade implies the *utmost* facility for exchanges of every description, so that every one (within the limits of honest dealing) may buy whatever he likes,—sell what he chooses,—and hold whatever he may desire to retain.

But a mere increase in the facility for effecting exchanges, can neither raise nor lower the value of any one kind of property, in

comparison with that of other kinds of property; therefore it cannot disturb prices.

To view the principle when pushed to its extreme consequences, (in order to test its correctness) let us suppose for a moment, that it were practicable to make the whole of the National Debt legal tender *at its market value; i. e.*, let us suppose it were a practicable course, to have the market value of stock declared authoritatively every day, (in the manner proposed by Lord St. Leonards, with reference to the contemplated transfers of stock from the account of one suitor in Chancery to that of another, without actual purchase or sale), and at such declared value, to make a tender of stock, in payment of a debt, a legal tender. The effect would be to turn the whole eight hundred millions of stock into money, and thereby to increase the circulating medium, by eight hundred millions. Would such a measure have any effect upon prices? Certainly it would raise prices *temporarily*, if it were to be *suddenly* introduced, and if the use of stock as money should in any considerable degree supersede the use of gold, and thereby

tend to cheapen gold. But a sudden introduction is no necessary part of the supposition; and the *gradual* setting at liberty of gold, could at most have no greater effect upon prices, than has been caused by the introduction of the Californian and Australian gold.

Apart from the mere transitory effect of thus superseding the use of a certain quantity of gold as money, it would be difficult to point out any reason, why a *virtual coinage* of the whole of the National Debt, in the manner supposed, should have any effect upon prices. For there seems to be no reason, why those who now choose to hold stock, because of its safety and productiveness, should not then equally choose to hold it.

No doubt the increased facility for parting with stock, would lead some to dispose of it, who now continue to hold, rather than incur the expense and trouble of selling-out; but such increased facility would equally lead others to acquire stock, who are now deterred by the trouble and expense of purchasing. In short, it is *the security and productiveness of stock* which induces us to purchase and to hold

it, and as these inducements would be nowise either increased or diminished in the case supposed, there is no reason why we should become either more or less inclined to hold stock than we were before.

I do not propose, however, to coin more than a small portion of the National Debt, viz., such portion as will form a sufficient reserve to prevent the currency from ever falling below the legitimate wants of the community for effecting those exchanges, which are an essential part of the great industrial mechanism, by whose operations, the necessaries, conveniences, and elegancies of life, are produced and distributed.

SUPPLEMENTAL CHAPTER.

CRITERIA.

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CRITERIA.

By the reports from the money market, we learn at one time that money is "tight," (scarce,) or perchance "very tight,"—and at another time, that money is "easy," (plentiful,) or perchance "very easy;"—and again, that the plenty has so much increased, that "money has become a drug." But as the word money is used very loosely, sometimes to mean one thing and sometimes another, and as the reporters connected with the money market do not define the sense in which they use it, we are left to interpret their reports as best we can. In attempting this, we stumble at once upon the very perplexing question,—what is it that thus becomes scarce at one time and plentiful at another? Is it in literal truth, *money*, (currency,) or is it *money's-worth?* —in other words, is it currency, the mere *instrument* of buying and selling, or is it material capital, the ordinary subject of buying and selling? or may it not be both?

Were we to consider only what the lenders have to dispose of, we should conclude, that the operations of the money market relate exclusively to currency, as the lenders do not profess to have anything but currency to offer; but we have also to consider, the purposes of the borrowers, *i. e.*, whether they want money simply; or whether they seek it, merely as a step towards obtaining the possession of money's-worth. For instance,—a man whose capital is insufficient for his purposes, may go into the money market to borrow (if he can) additional capital. In this case, although the applicant asks for *money*, (currency,) his object is really to obtain the command of *money's-worth*, *i. e.*, material capital; the money being of no other use to him than as a means to that end; for if any one could supply him, on loan, with the exact kind and quantities of material capital which he desires to obtain, he then would not want the money.

On the other hand, a person may go into the money market, *not seeking money's-worth*, but money only; because, having already money's-worth in one form, and as a matter

of business desiring to exchange it for money's-worth in another form, he requires the temporary use of currency, simply to enable him to effect such exchange.

Thus, a cloth manufacturer, having finished the goods for a large order, and being about to deliver them, may just then require a supply of wool to the full value of such finished cloth.

Now if his customer for the cloth should happen to be a holder of wool, a simple barter of the one for the other might best answer the purpose of both parties; in which case, the use of currency would be dispensed with, and consequently there would be no need for a recourse to the money market.—Or again, if the customer should have money of any kind—bank-notes for instance,—at command, and, by paying ready money, should enable the manufacturer to purchase the wool at once, then, just as before, the wool would replace the cloth, without a recourse to the money market.

But in the case of the customer not having either the wool or the money, but having

other marketable goods, the sale of which would soon supply him with cash, he might accept the manufacturer's bill at a short date; which being discounted in the money market, would furnish the means for purchasing the wool.

The manufacturer's purpose, in this case, is simply that of exchanging the cloth which he has to part with, for the wool which he wants;—if barter will accomplish this, well and good;—or, barter failing, if his customer can hand him the currency necessary to do it, then well and good;—but, both failing, it is clear that either somebody must be asked to supply the requisite amount of currency, for the short time required in bringing about the exchange, or the manufacturer must go without the wool, and his operations be brought to a stand. Hence, the application to the money market; not (be it observed,) for the use of *one particle of material capital,* (for paper money will answer the purposes just as well as coin,) but merely for the loan, for a short time, of that convenient go-between, currency, which possesses the useful quality of facilitating exchanges, whether it be those of

commodity for commodity, of service for service, or of either for either, as may be required. So that that which the manufacturer borrows, will enable him duly to effect the exchange of the cloth for the wool, it matters not to him of what it may consist; *i. e.*, whether it consist of *substantial property*, as gold, or of *mere transferable certificates of ownership*, as Bank of England notes, or other valid paper money.

To the first man, *i. e.*, to him who goes to the money market, wanting an accession of capital, it is a matter of much importance whether *material capital* be then plentiful or scarce, because the interest he will have to pay, will mostly depend thereupon; but it is not of much importance to him, whether *currency* be then plentiful or scarce, for whatever advantage he may derive from its abundance, or disadvantage from its scarcity, in getting possession of the necessary amount, will, in effect, pass from him to the persons with whom he lays out the money.

But to the second man, viz., the one who goes to the money market, not wanting an accession of material capital, but merely the

use of such means as will enable him to exchange a given amount of capital in one form for the same amount in another form, it will be of no importance whatever to his immediate purpose, whether material capital be then plentiful or scarce ; but it will be of much importance to him whether *currency* be then plentiful or scarce, for that will determine the rate of interest which he will have to pay for its use.

And each of these borrowers being the type of a class, the conclusion is, that on the one hand, the class of borrowers whose business in the money market is to obtain an increase in their capital, will have their interests much affected by the abundance or scarcity of material capital, and but little affected by the abundance or scarcity of mere currency; whilst, on the other hand, the class of borrowers who merely want the means of exchanging one kind of material capital for another kind, will have their interest affected solely by the abundance or scarcity of mere currency, and not at all by that of material capital.

My knowledge of the money market does

not enable me to offer any estimate of the relative magnitude of the respective requirements of these two classes of borrowers. My impression, however, is, that could the transactions of the market be analyzed, it would be found that an overwhelmingly large portion consisted of loans to men of the second class, viz., to those who simply require the temporary use of currency—"the agent of exchange"—to enable them to effect the exchange of one kind of material capital for another.

There are able writers who treat the fluctuations of the money market, its "easiness" at one time, and its "tightness" at another, as indications solely of corresponding fluctuations in the abundance of material capital; and not as in any degree occasioned by fluctuations in the abundance of mere currency; it may, therefore, be necessary here to offer some evidence, that fluctuations of the last kind do really occur.

I have stated elsewhere, that in Scotland, where specie is but little employed, and consequently where the fluctuations of the bank-note circulation, may be taken as indicating with tolerable correctness the changes in the de-

mand for currency, the Parliamentary Returns shew, that twice in each year there is a sudden increase, of from 15 to 30 per cent in the circulation; and at the end of some ten days as sudden and extensive a decrease.

Now this sudden change in the demand for currency is easily met and compensated in Scotland, and therefore it does not necessarily produce either an observable scarcity or an observable abundance of currency. But in England, where we have not the means of compensation which the Scotch enjoy, it appears nowise illogical to infer, that the perturbations of the money market are attributable more or less to uncompensated changes in monetary demand.

I will mention one fact, which proves, that when it occurred, currency must have been scarce, almost beyond the bounds of credibility.—On October 23, 1847, two bills, together £1500, were presented for discount at the Liverpool Branch of the Bank of England, *and were refused*, although drawn by a highly respectable English firm, bearing the indorsement of the Bank of France, and having but three days to run.—*Vide Parliamentary Reports.*

Further, it is well known, that the accumulation in the Bank of England, of the money paid for taxes,—and which is retained in readiness for the payment of the quarterly dividends upon the National Debt,—forms a serious subtraction from the available currency; a subtraction, which, from the inconvenience it has occasioned, has compelled the Bank Directors to resort to a special, but imperfect, expedient, to neutralize its effects.

I may refer, also, to the very singular circumstances of the panic of 1836-7, which, so far as I can collect, were these:—The American Government being dissatisfied with the badly-managed paper currency then in use in many parts of the Union, resolved to supersede it, by the introduction of a metallic currency; and General Jackson, the President, setting about the matter with military energy, a large quantity of bullion was forthwith procured, for the purpose of coinage; gold to the amount of seven millions sterling, or thereabout, being obtained from this country.

Now we did not *give* this gold to the Americans, but we *sold* it to them, and no

doubt sold it at a profit; profit being the object of all dealings; as none know better than the traders in bullion. When, therefore, the sale of this bullion was completed, we must have become richer, as a nation, by the amount of the profit obtained upon the transaction; but notwithstanding this, we suffered a panic; as under our present monetary system we must ever be liable to suffer, under similar circumstances; for in parting with our gold, in exchange for other commodities, even though these may replace the value of the gold, with the addition of a fair profit upon the transaction, *we part with the particular substance which we have chosen to endow with the attribute of legal tender, and obtain in its place something else which we have not chosen so to endow;* and the moment the consequent want of legal tender comes to be felt, there follows a scramble and a panic.

Seeing that in this case, we had not suffered any diminution in our wealth, but on the contrary, had even increased it somewhat, the misfortune of panic would seem clearly due to our imperfect arrangements. We did not want

wealth, but wanted ATTRIBUTE. We had, by our own act, confined the attribute legal tender to the one substance—gold; and doggedly stuck to this, even when the gold was gone away, although we had then abundance of other substances which might have borne the said attribute quite well enough for a makeshift, until the gold should have gradually recovered its former level with us. Thus we suffered ourselves to be held fast in a fool's purgatory; like the celebrated Spanish King, who, when the log-piled fire in his chamber burned up,—forbidden, by the iron etiquette of the Court from removing himself or his chair,—was roasted to death, because the man of the exact rank, or *attribute*, suitable to the purpose, was not at hand to perform the operation of removal. Or as a town might be, which, upon occasion of the temporary absence of its ordinary police force, should rather submit to riot and plundering, than swear-in special constables; although there might be no lack of men, both willing and able to take part in securing order, if the authorities would but *endow* them, for the

time, with those *attributes* which would enable them legally to interfere.

That loanable or material capital, does become more abundant at one time, and less abundant at another, is a matter that no one doubts.

That currency, also, does become more abundant at one time and less abundant at another, is a matter, which, in my mind, is equally unquestionable.

That changes in the state of the money market, whenever these take place, are attributable to one or other of these two causes, or to both, will not be questioned; but the difficulty is, to assign to each of these causes, respectively, that portion of the effect which is its due.

As currency, which is the *agent* or *implement* of exchange, is so very different from ordinary *commodities*, which are the *objects* of exchange, —just as scales and weights are different from the goods to be weighed; or as knives and forks, plates and spoons, are different from the food, which, without their instrumentality, we could not eat in comfort,—we might natu-

rally have expected to find, that the symptoms of their respective abundance or scarcity were correspondingly different. But, in fact, these symptoms are, in many respects, most perplexingly alike; and as there is nothing to prevent both currency and commodities from becoming either abundant at the same time, or scarce at the same time, there is nothing to prevent the said symptoms from becoming thoroughly blended.

So to master this part of the subject, as to gain, from the symptoms, a perfect insight into the nature of the phenomena, would be a matter of no small difficulty; demanding more time, and more labour, than many men can devote to such subjects; and requiring, too, a degree of sagacity, which but few, perhaps, can bring to bear upon them. I hope the following observations may at least afford assistance in removing this obscurity:—

An unusual abundance of material capital,—that is, of money's-worth,—strongly tends to stimulate enterprise, (whether sound or unsound,) for it puts unusual means into the hands of men of enterprise. An unusual

abundance of currency, also, tends to stimulate enterprise; for it much facilitates the passage of material capital, or money's-worth, into the hands of men of enterprise. While a scarcity of material capital, or of currency, has an opposite effect, and represses enterprise. So far the symptoms appear to be undistinguishable.

But, in their influence upon prices, the effect of an abundance or scarcity of material capital, is precisely the reverse of that of an abundance or scarcity of currency;—an abundance of commodities tending to lower prices, whilst an abundance of currency tends to raise prices. Further, if a scarcity of currency has much continuance, it commonly brings about something of a relapse towards a state of barter; symptoms of which may be observed in the advertising columns of the newspapers, and elsewhere; whilst a scarcity of material capital can have no such result.

Again, as affecting the current rate of interest;—although an abundance either of currency or of material capital tends to lower that rate, and a scarcity of either to raise it,

yet, there is this most important distinction, viz., that when a high rate of interest is produced by a scarcity of currency, the dread which is inspired, and the accompanying derangement and ruin, have a strong tendency to *restrict* our manufacturing, trading, banking, and constructive operations;—works being stopped, factories closed, ships lying idle, and men being everywhere out of employment during its continuance; although material capital may be then little better than a burden in the hands of its holders.—On the contrary, a high rate of interest, produced by a scarcity of material capital, (currency not being scarce), in other words, *a high rate of profit*, offers the strongest motives to *extend* all these operations, and to carry them to the extreme limits which the existing amount of material capital is capable of sustaining. Currency being to material capital, much as water is to vessels of burden;—for, when the aid of currency is withdrawn, the various portions of material capital can no more glide freely to the several points where they can best be employed, than can the various ships, barges, and boats, in an

estuary, pass to their several destinations, when the tide has fallen too low to keep them afloat.

In times of panic, too, there is a marked distinction to be observed between the operation of these two causes. For if a panic should ever happen, from a scarcity of *material capital*, (the reason which is commonly assigned for panic,) the position of advantage would surely be to the fortunate holders of the diminished stock of material capital; and the mere holders of money (currency) must speak "with bated breath."

But a panic occasioned by a scarcity of *currency*, must, on the contrary, give the men of currency the position of advantage, (as it notoriously ever has done),—humbling the men of material capital, or money's-worth, to the dust.

Again, an abundance of currency, whilst it favours the debtor—by enabling him to payin a medium of lowered value—is, in the same degree, injurious to the creditor; but an abundance of material capital benefits both debtor and creditor; without, however, altering their mutual relations in the least.

Further, even a great scarcity of material capital, although sure to bring privation and distress to many, will not necessarily produce that commercial dislocation, which carries terror and dismay into the ranks of the productive and trading classes; a calamity, which is almost sure to be produced by a great and continued defalcation in the currency, whether caused by the want of quantity or the loss of efficiency.

It should be observed, also, that under the present imperfect arrangements, a scarcity of material capital has a tendency, also, to render currency more scarce, and that a scarcity of currency has, in like manner, a tendency to render material capital more scarce; and *vice versa;* for when food is scarce, gold may not improbably be abstracted from the currency, to send abroad in purchase of corn, and when currency is scarce, material capital in some form or other will no doubt be sent abroad in purchase of gold.

And lastly, the nature of the commercial disease may be sometimes discovered, by considering the nature and effects of the specifics

resorted to for its cure. The great panic of 1825, for instance, was arrested by the discovery and timely re-issue of a large box-full of one-pound-notes, which had accidentally escaped destruction, at the time when such notes were withdrawn from use. And the great panic of 1847, was arrested, by the Executive, authorizing the Bank of England to issue bank-notes beyond the amount allowed by law. Lastly, smaller panics have been stopped by the Chancellor of the Exchequer raising the interest upon Exchequer bills, to enable these to act as auxiliary currency. In each case, the remedy consisted solely of an addition (made or promised) to the currency. No addition was, or by possibility could be, made to our stock of material capital in either case. It seems clear and unquestionable, therefore, that it was not *more* capital, *but the power of wielding what we had,* which we really wanted.

An observation of the time of the occurrence of a "tightness," or of an over "easiness," in the money market, its duration and period of cessation, will also assist much in discovering its true cause.

If "tightness" were caused by a failure of our harvest, its commencement might be reasonably looked for, at, or soon after harvest time; and, unless under very special circumstances, it must surely continue until the next successful harvest came, however distant the time. We had a bad harvest in 1846, but had no "tightness" until February, 1847; and then it was of but short continuance. In the summer of 1847, we had a very large supply of corn from the Black Sea; and in August and September of that year, we gathered in a most abundant harvest of our own. But in *October*, 1847, in spite of this complete replenishment of our stores, came on a frightful panic; which, however, was stopped by the Government measure just adverted to, ere that month was ended. It would appear, therefore, that neither as respects its commencement, its duration, its termination, nor the mode of its cure, can the great panic of 1847, be shewn to have had any relation to the bad harvest of 1846.

With reference to the foregoing observations, I would remark, that as great economical prin-

ciples are for the most part *gradual* in their operation, governing *tendencies* rather than producing immediate results, it must be understood, that whenever a given cause is said to be attended with, or to bring about, given consequences, its *continued* operation, and the *gradual working out of its consequences* are implied. This reservation is so constantly required in economical investigations, that to express it in all cases would be to oppress the subject with prolixity,—whilst if, as is too often the case in economical discussions, the important qualification in question, be either forgotten altogether, or not allowed its proper weight, the natural consequences will be, frequent misapprehension, and not a little erroneous conclusion.

With this preliminary remark, I would state, by way of summary, that,—

1st. "Tightness," if occasioned by an insufficiency in the currency, and not by a scarcity of material capital, will be attended by *falling* markets; affecting especially the less marketable commodities.—

And by an interruption of our industrial

operations, accompanied by the strange anomaly of an apparent superabundance of material capital, its holders being at such a time unable to dispose of it, except at a heavy loss.—

And by a fall of profits.—

And by an exaltation of the holders of currency, and a corresponding depression of the holders of mere ordinary commodities; especially of those of commodities of the less marketable kinds.—

And by more or less of distrust, and dread of commercial dislocation.—

And by severe pressure upon the debtor class, to the *apparent advantage* of the creditor class, but often to their *real disadvantage;* from its causing a wasteful break-up of the concerns of many debtors, who, but for such insufficiency of the ordinary facilities for carrying on business, would in due course have paid their creditors.—

In respect of the time of its commencement, its duration, and its termination, the "tightness" will probably not agree with the commencement, duration, and termination, of any manifest defalcation of material capital;

whether from failure of the harvest or otherwise.—

And lastly, if a remedy be successfully applied, this will operate, by increasing, either the available quantity of the currency, or its efficiency, so as to set the buying and selling, paying and receiving, and therefore the whole of the great industrial mechanism, fairly in motion again.

Whilst, on the other hand, if "tightness" be caused by the scarcity of material capital, it will be attended by *rising* markets.—

And by an advance of profits, stimulating industrial operations to the utmost bounds which the more limited amount of material capital will allow.—

And by an exaltation of the holders of material capital, in comparison with the holders of mere currency.—

And by the absence of distrust, and of the dread of commercial derangement; unless, indeed, in extreme cases, when the defalcation of material capital, falling upon particular classes, threatens their ruin, or indeed becomes so severe as to produce a "rebellion of the belly."—

And in respect of the time of its commencement, its continuance, and its termination, it will practically agree, with the commencement, duration, and termination, of some obvious cause of a defalcation of material capital: as a failure of the harvest.

And as no remedy can cure the "tightness" which is caused by a scarcity of material capital, unless it either bring an additional supply of material capital, or help us the better to economize that which we have, it would seem quite beyond the power of the Bank Directors, or even of the Executive Government, to administer any effectual remedy; for neither the Directors nor the Executive, are, like Joseph of old, in possession of a vast store of material capital, which they can bring out in aid, and thereby abate the scarcity; all they can do, therefore, and indeed, all that they have ever been asked to do, is to merely provide additional monetary facility, upon occasions, when, from some cause or other, the supply of the medium of exchange has become insufficient to afford the accustomed facility for effecting those incessant exchanges, of commodity for

commodity, of service for service, and of the one for the other respectively, without which, the production and distribution of the necessaries of life cannot be effectively carried on.

2ndly. Unusual "easiness" in the money market, if produced wholly by a superabundance of currency, will be attended by *rising* markets.—

And by great relief to the debtor class, at the expense of the creditor class;—debtors finding it unusually easy to pay, whilst prudent creditors, upon receiving their money, are much at a loss to know how to employ it with safety.—

And after a time, by speculative excitement, *i. e.*, an unusual eagerness to buy, and to enter into new projects; as contradistinguished from an increased degree of spirit and perseverance in the *carrying out* of that which has been well undertaken.—

And lastly, it has a strong tendency to that self-aggravation, which, as it gathers strength, sweeps men's wits fairly away in its course, stimulating them to those wild vagaries, which at last, by startling the timid, and warning

the prudent to get ready for a storm, lead the way to doubt, distrust, and panic.

Whilst, on the other hand, if unusual "easiness" be caused by a great abundance of material capital, it will be attended by *falling* markets.—

And by that spirit of sound enterprise which, although it by no means disinclines men to the prosecution of new undertakings, provided these are well-considered and found to be really promising, yet prompts them rather to redouble their exertions in carrying out those undertakings in which they are already embarked, than to grasp at every new scheme which may start up in their path.—

And by the benefit which it imparts to both the debtor and the creditor classes; without, however, serving either class at the expense of the other.—

Lastly, "easiness," produced by an abundance of material capital, (and attended by falling markets,) has but little, if any, tendency to produce that course of self-aggravation, by which a superabundance in the currency leads to doubt, distrust, and panic.

With respect to the effects of "easiness" and "tightness" upon the prices of investments, in particular,—we are justified, by well-established economical principles, in assuming, that "easiness," when brought about by a superabundance of currency, will tend to raise the prices of investments; because of the keen competition which, under such circumstances, will necessarily arise amongst the holders of the superabundant currency, in their efforts to obtain productive property in exchange for their barren coin. And further, that as the purchases made under these circumstances, *will not carry off the superabundant currency*, but will, for the most part, merely shift the burden of it from one man's shoulders to another's; much as the poor hunchback, in the Arabian Tales, was shifted from the fisherman to the merchant, from the merchant to the physician, and so on, being, however, always a burden upon the last to whom he was transferred,—the evil would seem to be likely enough to run a course of self-aggravation. Sellers, finding afterwards, that prices were sustained, and having no profitable employ-

ment for the money they had received, would be likely enough to conclude, that they had made a mistake in selling, and thereupon to re-enter the market in the character of buyers; a proceeding, which would much strengthen the prevalent, but factitious, tendency to advance, in the prices of investments.

And, upon the other hand, the same economical principles equally justify us in assuming, that "tightness," when brought about by an insufficiency in the circulation, will tend to depress the prices of investments, by reason of the keen competition for the scarce cash, that will arise amongst those of the possessors of investments, who, requiring the use of currency, must sell a portion of their investments in order to obtain it.

Those disturbing influences upon the prices of investments, which are wholly referable to the occurrence of incorrectness in the adaptation of the available currency to the legitimate wants of the buyers and sellers, &c., would of course be for ever abated, were the means for wholly preventing such incorrectness for the future, to be found and adopted.

And, to eliminate so much of the uncertainty which attaches to the value of investments generally, (and to the funds in particular,) would be to remove much anxiety from the breasts of the holders thereof, the great majority of whom no doubt desire a safe and unchanging investment for their property, and much dislike being kept constantly in hot water by its ceaseless change of value.

It would set at liberty, for useful purposes, much industry, and much ability of a very high order, which now are both wasted in pursuits, which, however profitable they may be to individuals, are, so far as the fluctuations in question may be preventable, utterly useless to the community; as much so as betting upon horse-races, or any other form of gambling; because those pursuits aid not either in the production, in the storage, or in the distribution, of anything whatever.

To get rid of such fluctuations, and thereby to destroy the pabulum of our most extensive and most tempting speculations, would obviously be no small moral gain; for the pursuits of the *mere speculator*, are surely anything but

favourable to the growth of a love of the useful, the noble, and the good.

It is not necessary here to consider the effects upon the prices of investment, of the fluctuations in the degree of abundance of material capital, because we have no ready means of controlling such fluctuations. Something is undoubtedly within the power of Government, because of the largeness of the national expenditure. And were it the rule, to select the times of plenty for the execution of public works, as the building of palaces, harbours, fortresses, ships, &c., *and to forbear therefrom in times of scarcity*, so far as a choice of time can be exercised, there can scarcely be a doubt, but that a useful sedative to the fluctuations of material capital, and to the changes in the prices of investments consequent thereupon, would, by those means, be administered. But unluckily, this reasonable course, which is what every intelligent man would take in the management of his own concerns, seems never to be thought of in times of material abundance; and in times of scarcity, such is the perverse fatality under

which (as it appears to me) our monetary arrangements have fallen, that we are ever then driven by monetary exigencies to *the very opposite course;* viz., to that of embarking in large public undertakings, just at the time when, by the rule of common sense, we are called upon to defer them; because then every effort ought to be given to the replenishment of our empty garners and storehouses, both by making everything we can devise, where-with to buy from abroad; and by turning over every furrow of land which can possibly be made to swell the harvest next ensuing, upon the abundance of which it will mainly depend whether or not we shall be restored to that state of comfort, from which the dearth has, for the time, shut us out.

CONCLUDING OBSERVATIONS.

It will be gathered from what I have said, that I regard our monetary laws as susceptible of improvement; first, as respects the substance employed as the standard of our currency, (my impression being, that an alloy composed

of gold and silver would have a more uniform value than either metal alone); and secondly, as regards the mode of applying the standard commodity.

As to the standard.—The discovery of the mineral wealth of California and Australia, would seem obviously to make the re-consideration of this subject a matter of mere ordinary prudence; the wonder, therefore, is, that either the Government or the Legislature has not taken it up long ago.

I can only suggest, that the mode by which other important inquiries have been conducted, and which has been adopted with eminent success in regard to the legal standards of weight and measure, be followed, also, as respects the still more important standard of monetary contracts and values in exchange; viz., that men, eminent for their general ability, and for their knowledge of the particular subject, be commissioned by Government to make a full and searching inquiry thereupon; and to recommend such measures as the investigation shall lead them to prefer.*

* The present very peculiar state of monetary and com-

And the inquiry may advantageously comprehend the question, how the standard should be applied.

My expectation is, that the plan of a reserve currency, herein proposed, (or any other plan which would secure the never-failing adaptation of the supply of currency to the demand), would, if adopted, completely cure the defect which I have pointed out, in the present mode of employing the standard; and thus render any change in that mode unnecessary.

If this expectation be well-founded, a searching inquiry, properly conducted, will

mercial affairs, in this and other countries, would seem both to call strongly for investigation, and to offer an opportunity for examination, such as rarely occurs; an opportunity therefore, which it would be most unwise to allow to pass away unimproved.

The monetary "tightness" experienced in our own country, is no doubt partly owing to our insufficient harvests, together with the falling off of our ordinary supply of corn from the Black Sea, and to the burden of an expensive war. But, that other and more powerful causes of disturbance are at work, can scarcely be doubted, when we see that other countries, the United States of America in particular, which have not these evils to bear, are suffering in the same way, and in at least an equal degree.

not fail to establish its truth, as far as this can be done without actual trial.

The specific effect of the present imperfect mode of employing the metallic standard, appears to me to be as follows:—

We employ coin in conjunction with auxiliary paper of manifold greater amount; but the coin—as the only substantial part of the currency—has to bear the brunt not only of the ordinary changes in the demand for currency, due to variations in the briskness of trade, the custom of making payments at particular seasons, &c., but that also of changes in the power of the auxiliary paper to perform the function of currency: *a power, rising or falling with public confidence.* And it is quite possible, that these two causes of disturbance may act unitedly; *i. e.*, that high confidence, enhancing the efficiency of paper money, may coincide with a lessened demand for currency; both tending to throw coin out of use, and so to make it *plentiful and cheap;* or that distrust, lessening the efficiency of the paper money, may coincide with an increased demand for currency; both tending to aug-

ment the demand for coin, and thereby to make it *scarce and dear.*

The result, therefore, is, that under our existing monetary laws and customs, the extant amount of currency, instead of being modified with sole reference to the changing wants of buyers and sellers throughout the country, so as to increase as buying and selling become more active, and to diminish as buying and selling become less active,—*is modified, in an important degree, with reference to changes in confidence;* increasing as confidence increases, and diminishing as confidence diminishes.—A totally erroneous result, producing now, an excess of currency, generative of speculative excitement; and now, an insufficiency of currency, creative of distrust and panic.

But variations in confidence ought not to have any such effect; and all monetary systems which admit of such influence, are imperfect and need correction; for it is not when there is more confidence that we want more currency, but it is when there is more buying and selling to be done; nor is it when

there is less confidence that we want less currency, but it is when there is less buying and selling to be done.

To give us more currency when we have not more buying and selling to do, is to give it to us when we do not want it; which cannot but make it over-plentiful, and thereby injuriously lower its value. And to withhold additional currency, when we have more buying and selling to do, is to withhold it when we *do* want it, which cannot but make it scarce, and thereby injuriously raise its value.

Thus by a latent error in our proceedings, an error, which it would seem that nothing but the test of actual trial could detect, we have missed the substance whilst gaining the shadow. The *proximate* object, viz., that of the conformity of the paper money to the metallic standard, we have undoubtedly attained; but the *ultimate* end, viz., that of unchangeableness of value *in both*, we have missed; for by a mistaken mode of proceeding we have rendered the standard itself variable.

The proposed currency of reserve, will, if adopted, completely neutralize the effects of

this error. It will provide ample compensation for all the disturbing effects, which variations in confidence produce upon the non-legal-tender portion of the currency; and by constantly and accurately adapting the amount of the effective currency, to the transactions going on, it will wholly prevent both monetary superabundance and monetary scarcity; and thereby preserve to the standard the full degree of uniformity of value which it would enjoy as a simple commodity, unused for monetary purposes.

The proposed currency-reserve, if adopted, will also have two important incidental advantages not yet pointed out;—viz., first, it will enable the bankers to keep in hand, without loss of interest, an amount of legal-tender which will secure them against the possibility of a run. And secondly, it will quite neutralize those powers over the currency, which the existing arrangements virtually place in the hands of the Directors of the Bank of England, doubtless much to their discomfort, since the possession of such powers cannot but expose the Directors to much unpleasant surveillance,

and distract their attention from their more legitimate duties, as the head of a body of capitalists, whose proper concerns are quite large enough to engross their full attention.

THE END.

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